

British Smaller Companies VCT2 plc



**Annual
Report**

for the year ended
31 December 2016

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 41 active investments reduces the exposure to particular markets and individual companies. To date British Smaller Companies VCT2 plc has in total realised 39 investments generating total proceeds of £25.7 million. The current investment portfolio has an audited valuation of £39.3 million as at 31 December 2016.

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 Company's venture capital trust status. Wherever possible the Company invests in a combination of equities, preference shares and loan stock to enhance the security of the portfolio. 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 a consistent dividend 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

112.2
pence

Total Return increased by 2.1 per cent over opening net asset value

Since 31 December 2015 your Company's total return has increased by 1.3 pence, from 110.9 pence per ordinary share to 112.2 pence per ordinary share, which includes cumulative dividends paid of 52.5 pence per ordinary share.

2.8%

Investment Growth

The underlying growth in the investment portfolio was £1.04 million, which represents an increase of 2.8 per cent.

4.5
pence

Dividends for the Year

Total dividends paid during the year ended 31 December 2016 were 4.5 pence per ordinary share, which equates to 7.2 per cent of the opening 31 December 2015 net asset value per share. This comprises a final dividend relating to the year to 31 December 2015 of 2.5 pence and an interim dividend for the year to 31 December 2016 of 2.0 pence per ordinary share.

£4.3
million

New investments

Four new investments amounting to £4.3 million were made in the year.

£3.5
million

Fundraising

Offer for subscription fully subscribed and closed within 15 days of launch, raising net proceeds of £3.5 million.

FINANCIAL CALENDAR

Results Announced	21 March 2017
Ex-dividend Date	30 March 2017
Record Date	31 March 2017
DRIS Election Date	18 April 2017
Annual General Meeting	10 May 2017
Dividend Paid	12 May 2017

FIVE YEAR SUMMARY

	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012
Income £'000	1,937	1,953	1,272	689	594
Profit before and after taxation £'000	1,412	4,132	1,157	2,131	852
Profit per ordinary share	1.51p	4.96p	2.00p	4.73p	2.39p
Dividends per ordinary share paid in the year	4.5p	4.5p	4.5p	4.5p	4.5p
Cumulative dividends paid per ordinary share	52.5p	48.0p	43.5p	39.0p	34.5p
Net assets attributable to ordinary shares £'000	56,109	54,850	39,333	30,458	27,152
Net asset value per ordinary share	59.7p	62.9p	62.9p	65.6p	65.5p
Total Return per ordinary share	112.2p	110.9p	106.4p	104.6p	100.0p
Increase in Total Return per ordinary share	1.3p	4.5p	1.8p	4.6p	1.5p
Cumulative 5 year increase in Total Return per ordinary share	13.7p				



STRATEGIC REPORT

The Company is pleased to present its Strategic Report for the year ended 31 December 2016. 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

Total shareholder return for the year was 1.3 pence per ordinary share, which was 2.1 per cent of the net asset value at 31 December 2015 and your Company's portfolio generated a return of 1.5 pence per ordinary share, which was 2.8 per cent over its opening value.

The impact of the new VCT rules on the investment rate over the past two years has been quite marked. Investments in new unquoted trading companies totalled £4.3 million in 2016 and £3.0 million in 2015, compared to £12.3 million in 2014, the last year under the previous rules.

In light of this it is pleasing that there was an increase in the investment rate following HMRC's issuance of its revised guidance on the new VCT rules in May 2016, with 75 per cent of the year's investments being completed in the final quarter of the year. There remains a good pipeline of potential investments which your Board is looking to convert to add to the portfolio during 2017.

Financial Results

In the year to 31 December 2016 your Company's total return increased by 1.3 pence per ordinary share to 112.2 pence per ordinary share, driven mainly by the underlying value growth in the investment portfolio. This equates to an increase of 2.1 per cent on the opening net asset value at 31 December 2015.

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 52.5 pence per ordinary share. The net asset value at 31 December 2016 is 59.7 pence per share as summarised in the table below:

	Pence per ordinary share	£000
NAV at 31 December 2015	62.9	54,850
Net underlying increase in portfolio	1.1	1,043
Net income after expenses	0.4	369
Issue/buy-back of new shares	(0.2)	4,038
	1.3	5,450
Dividends paid	(4.5)	(4,191)
	(3.2)	1,259
NAV at 31 December 2016	59.7	56,109
Cumulative dividends paid	52.5	
Total Return: at 31 December 2016	112.2	
at 31 December 2015	110.9	

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 2015, amounting to £36.65 million, have over the year increased by £1.04 million to £37.69 million at 31 December 2016. This return comprises a gain over the opening value from the realisation of investments and deferred proceeds of £0.34 million, and a gain on the revaluation of the portfolio of £0.70 million. There were strong performances from ACC Aviation, Business Collaborator Limited, GTK (Holdco) Limited and Mangar Health Limited, which in part were offset by the poorer performances of Ness (Holdings) Limited, Cambrian Lodges Holdings Limited, Seven Technologies Holdings Limited and Intamac Systems Limited.

Shareholder Relations

Dividends

The Board remains committed to achieving the objective of a consistent dividend stream over time. Dividends paid in the year comprise a final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2015, 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 52.5 pence per ordinary share.

Following the modifications to the VCT rules there has been a change in the nature of new investments with a requirement to invest in earlier stage businesses which generally require a higher proportion of equity investment

**10 May
2017**

The Annual General Meeting of the Company will be held at 12:00 noon on 10 May 2017 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.

than in the past. As the existing portfolio matures it is anticipated that the resultant future dividend stream and net asset value could as a consequence become more volatile than in the past.

With this in mind and to maintain a sustainable level of future dividends the Board is proposing a final dividend of 1.5 pence per share for the year ended 31 December 2016. This final dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and if approved will then be paid on 12 May 2017 to shareholders on the register at 31 March 2017. The ex-dividend date is 30 March 2017.

Dividend Re-investment Scheme ("DRIS")

Your Company operates a DRIS, which gives shareholders the opportunity to re-invest any cash dividends and is open to all shareholders, including those who invested under the recent offers. For the financial year ending 31 December 2016 dividends totalling £0.8 million were invested in your Company by way of the DRIS.

Fundraising

During the first half of the financial year your Company raised net proceeds of £3.5 million through a "top-up" offer. Your Company launched a further top-up fundraising on 3 January 2017 and it is pleasing that the offer closed in less than a week. The Company allotted 6,787,231 ordinary shares on 10 February 2017

raising net proceeds of £4.1 million and following this allotment there were 100,761,545 ordinary shares in issue.

Shareholder relations

As part of the Board's continuing dialogue with shareholders, the 21st shareholder workshop was held in conjunction with British Smaller Companies VCT plc at the British Library on 17 May 2016, with over 200 attendees. There were presentations from the managing directors of two of our newest investments, Ness (Holdings) Limited and KeTech Enterprises Limited, David Hall and David Bell from the Investment Adviser, as well as Wyndham North of HM Treasury.

Your Company's electronic communications policy, whereby documents such as the annual report are disseminated via the website www.bscfunds.com rather than by post, has saved on printing costs as well as being more environmentally friendly. I am pleased to report that this policy continues to be well received, with 84 per cent of shareholders receiving communications in this way.

The website www.bscfunds.com is refreshed on a regular basis, with the emphasis on providing a comprehensive level of information in a user friendly format.

The next Investor Workshop will take place on 3 May 2017 and is being held at The Grand Connaught Rooms, 61-65 Great Queen Street, Covent Garden, London.

Stockbrokers

I am pleased to inform you that your Board has appointed Panmure Gordon (UK) Limited as corporate broker with effect from 1 January 2017. The Panmure Gordon team has a wealth of experience as broker to numerous VCTs and we look forward to working with them in the future. The Board would like to thank Nplus1 Singer for the work they have done as the Company's broker over many years.

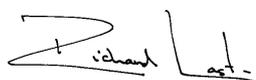
Auditors

The Board has carried out a competitive tender process for the provision of audit services and, as a result, Grant Thornton LLP resigned as the Company's auditor. The Board has appointed BDO LLP to fill the casual vacancy and a resolution to appoint BDO LLP as auditor is included in the notice of the Company's Annual General Meeting to be held on 10 May 2017.

Outlook

New investments will continue to be made in earlier stage businesses which have less ability to finance debt instruments as they invest for growth. The majority of new investments are therefore likely to comprise a significantly higher proportion of equity. This is likely to have the impact of reducing the portfolio's income stream with returns more reliant on equity realisations.

Investment will continue to focus on high quality businesses with good growth potential and attractive realisation prospects.



Richard Last

Chairman

21 March 2017

OBJECTIVES AND KEY POLICIES

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

Investment Policy

The 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 majority of investments in the current portfolio are in a combination of equities, preference shares and loan stock. The investments made under the new VCT rules consist largely of equity with a preferred return on realisation.

Borrowing

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

Co-investment

British Smaller Companies VCT2 plc and British Smaller Companies VCT plc ("the VCTs") have in aggregate first choice of all investment opportunities meeting the VCT qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's 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.

The replacement capital element of any investment will be provided by other funds managed/advised by YFM.

Asset mix

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

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom being non-executive directors, can be found on page 42.

Other Key Policies

Details of the Company's policies on the payment of dividends, the DRIS and the buy-back of shares are given on page 2. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 31.

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

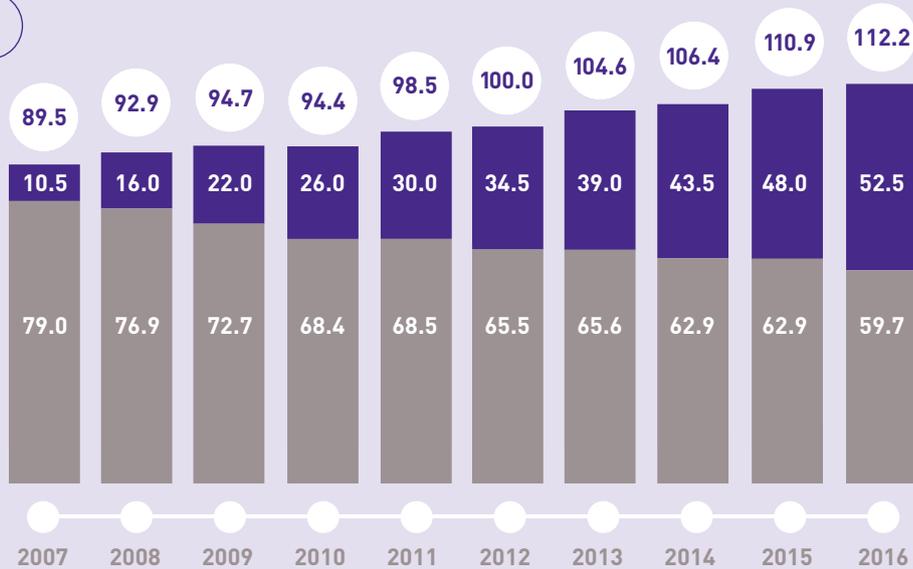
The Investment Adviser will receive an amount (satisfied by the issue of shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the 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

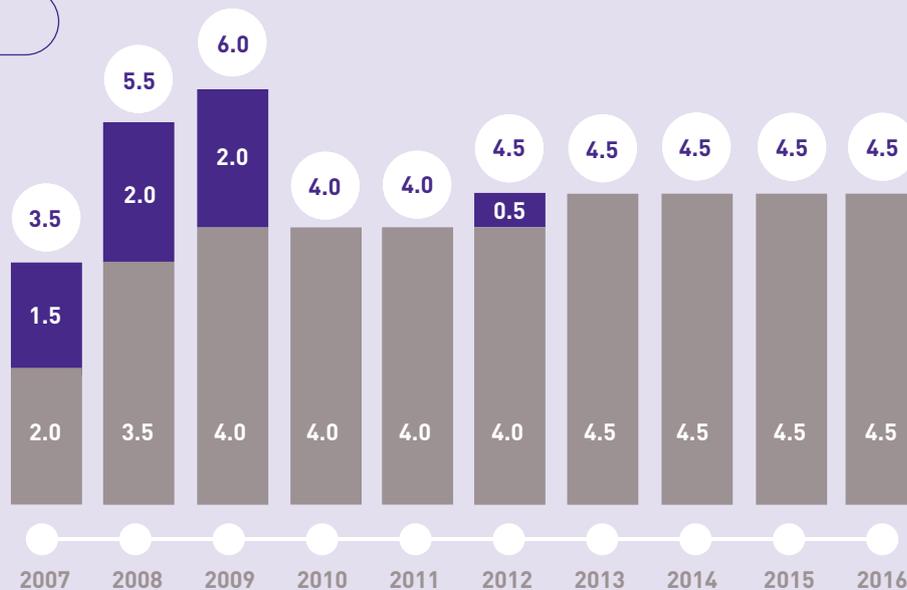


As at 31 December

● Total Return (pps) ■ Cumulative Dividends (pps) ■ NAV (pps)

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 44.

Dividends Paid



Year ended 31 December

● Dividends Paid (pps) ■ Special Dividends (pps) ■ Ordinary Dividends (pps)

The average dividend paid over the last 5 years was 4.5 pence per ordinary share, equivalent to a 7.5 per cent yield per annum.

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 2016	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	59.7	52.5	112.2	80.0	100.0	173.2
2001/02 and 2002/03	59.7	52.5	112.2	80.0	100.0	173.2
December 2005 issue of shares on acquisition of British Smaller Technology Companies ³	41.0	35.1	76.1	49.0	69.0	154.2
2009/10 and 2010/11	59.7	30.5	90.2	54.1	77.3	132.5
2010/11 and 2011/12	59.7	26.5	86.2	49.2	70.3	122.9
2012	59.7	22.5	82.2	49.4	70.5	115.6
2012/13 and 2013/14	59.7	18.0	77.7	47.6	68.0	107.2
2013/14 and 2014/15	59.7	13.5	73.2	47.6	68.0	99.8
2014/15 and 2015/16	59.7	9.0	68.7	45.5	65.0	91.9
2015/16	59.7	4.5	64.2	44.7	63.8	85.0

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 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 60. There was no breach of the expenses cap in the current or prior year.

Expenses

	Year to 31 December 2016 (%)	Year to 31 December 2015 (%)
Ongoing Charges figure	2.51	2.28

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. The Board receives regular reports on compliance with the VCT legislative tests from its Investment Adviser. In addition the Board receives formal reports from its VCT Status Adviser twice a year.

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

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

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

Further restrictions placed on VCT's are:

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:

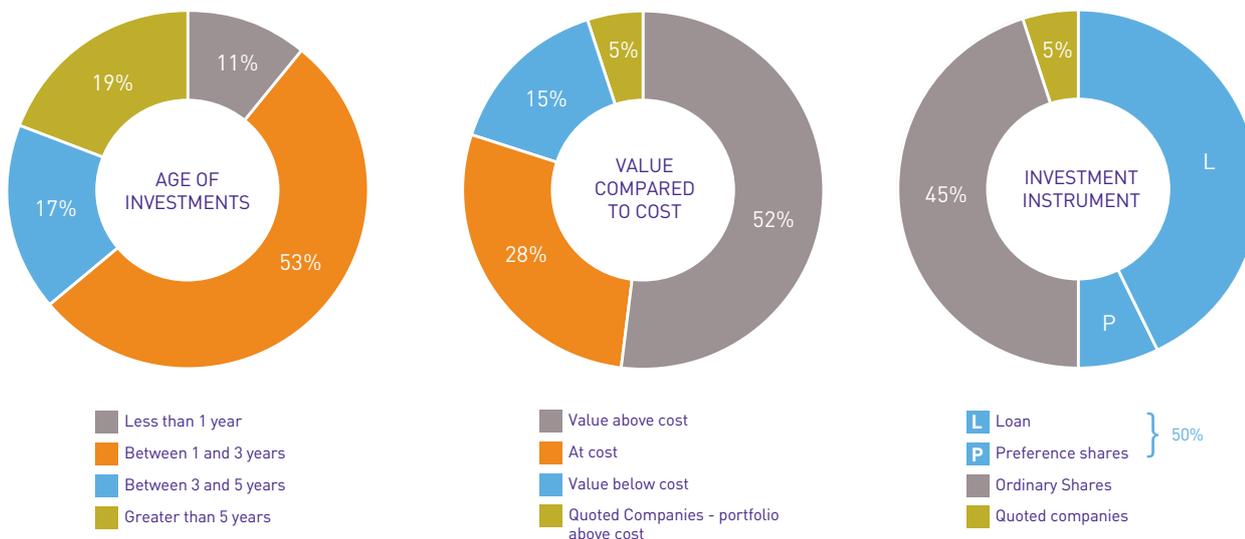
- i) An aggregate limit of £12 million (or £20 million for Knowledge Intensive Companies) on the amount of State Aid Risk Finance investment a business can receive during its lifetime;
- ii) No more than seven years can have elapsed since the first commercial sale achieved by the business (ten years 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% 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.

Income Test	The Company's income in the period must be derived wholly or mainly (70 per cent) from shares or securities.
Retained Income Test	The Company must not retain more than 15 per cent of its income from shares and securities.
Qualifying Holdings Test	At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in Qualifying Holdings of investee companies.
Eligible Shares Test	<p>At least 30 per cent of the Company's Qualifying Holdings must be represented throughout the period by holdings of non-preferential ordinary shares.</p> <p>For monies raised from 6 April 2011 onwards the eligible shares test above increases to at least 70 per cent of Qualifying Holdings that must be represented by eligible shares.</p> <p>In addition, monies are not permitted to be used to finance buy-outs or otherwise to acquire existing businesses or shares.</p> <p>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.</p>
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.

INVESTMENT PERFORMANCE

Portfolio structure

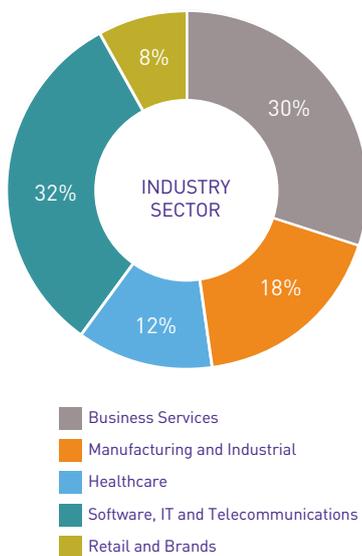
This illustrates the broad range of the investment portfolio with over one third of the portfolio valuation being held for more than 3 years, whilst 85 per cent is held at cost or above.



50 per cent of the portfolio's value is held in income generating financial instruments.

Portfolio diversity

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



The portfolio delivered a strong performance in the year, with a return of £1.04 million on the opening value and income of £1.94 million.

Investment Review

The portfolio as a whole delivered an increased value of £1.04 million in the year, as shown in Table A below. A value gain of £0.28 million has come from the unquoted portfolio with a very strong performance from ACC Aviation, offset by the impact of difficult trading conditions at Ness (Holdings) Limited and Cambrian Park & Leisure Homes Limited.

Significant Investment Movements

Unquoted

The £0.28 million unrealised valuation gain from the unquoted portfolio is as a result of improved profitability by a number of businesses. There were particularly strong performances from ACC Aviation, Business Collaborator Limited, GTK (Holdco) Limited and Mangar Health Limited which reflected in valuation gains. Although these were in part offset by four investments (Cambrian Park & Leisure Homes Limited, Ness (Holdings) Limited, Seven Technologies Holdings Limited and Intamac Systems Limited) where trading conditions were more difficult.

Quoted

Overall the quoted portfolio produced a value gain of £0.42 million. The main contributor was AB Dynamics plc, with a value gain of £0.24 million.

TABLE A

Investment portfolio	£million	%
Quoted value gain	0.42	40
Unquoted value gain	0.28	27
Gain on disposal over opening value	0.25	24
	0.95	91
Gain from deferred proceeds	0.09	9
Total Value Movement	1.04	100

At 31 December 2016 the investment portfolio was valued at £39.32 million, representing 70.0 per cent of net assets (66.8 per cent at 31 December 2015). Cash at 31 December 2016 was £15.86 million representing 28.3 per cent of net assets (31.8 per cent at 31 December 2015).

Your Portfolio

Fair value of portfolio



Increase of
7.3%

(2015: £36.65 million)

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



(2015: 24)

Income from the portfolio



(2015: £1.95 million)

Level of new investment



(2015: £7.24 million)

Investments

During the year ended 31 December 2016 the Company completed 6 investments totalling £4.51 million. This comprised 4 new investments of £4.28 million and 2 follow-on investments of £0.23 million. The analysis of these investments is shown in Table B:

Date	Company	Investments made £million		
		New	Follow-on	Total
Mar-16	Immunobiology Limited	-	0.15	0.15
Jun-16	Sipsynergy (via Hosted Network Services Limited)	0.90	-	0.90
Aug-16	Intamac Systems Limited	-	0.08	0.08
Oct-16	Biz2Mobile Limited	1.00	-	1.00
Oct-16	Traveltek Group Holdings Limited	0.98	-	0.98
Nov-16	Matillion Limited	1.40	-	1.40
	Invested in the year	4.28	0.23	4.51
	Capitalised interest and dividends			0.08
	Total additions in the year			4.59

Disposal of Investments

During the year to 31 December 2016 the Company received proceeds from disposals, repayments of loans and deferred consideration of £3.06 million. Overall this resulted in a value gain on disposal of investments of £0.34 million above the 31 December 2015 valuations as set out in Table C.

The most significant proceeds relate to the sale of Callstream Group Limited, for proceeds of £0.75 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 2016 the portfolio had a value of £39.32 million which comprised £37.25 million in unquoted investments (95 per cent) and £2.07 million in quoted investments (5 per cent). An analysis of the movements in the year is shown on page 63.

The portfolio remains well diversified, with 26 investments having a value greater than £0.5 million, compared to 24 a year earlier.

The charts on page 15 of these financial statements show the composition of the portfolio as at 31 December 2016 by industry sector, age of investment, investment instrument and the valuation compared to cost. This demonstrates representation across a wide range of industry sectors.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1 on pages 55 and 56, 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 2016 the value of investments falling into each valuation category is shown in Table D below:

Summary and Outlook

There is a good pipeline of potential investments coming through which should see a higher investment rate in 2017. The combination of an improving portfolio performance and a number of attractive exit opportunities should continue to deliver improving total returns.

TABLE C

Disposal of Investments	Net proceeds from sale of investments £million	Opening value 31 December 2015 £million	Gain on opening value £million
Sale of portfolio investments	2.88	2.63	0.25
Deferred proceeds received	0.18	0.09	0.09
Total investment disposals	3.06	2.72	0.34

TABLE D

Valuation Policy	Valuation £million	% of portfolio by value
Earnings multiple	22.04	56%
Cost, reviewed for change in fair value	13.11	34%
Price of recent investment, reviewed for change in fair value	2.10	5%
Quoted investments at bid price	2.07	5%
Total	39.32	100%



David Hall
YFM Private Equity Limited

21 March 2017

Investment Portfolio Summary at 31 December 2016

Page No	Name of Company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 December 2016 £000	Proceeds to date £000	Realised & unrealised value to date* £000
Unquoted Portfolio								
22	ACC Aviation (via Newacc (2014) Limited)	Nov-14	Reigate	Business services	1,379	3,480	-	3,480
23	Intelligent Office (via IO Outsourcing Limited)	May-14	Alloa	Business services	1,956	2,951	-	2,951
23	Mangar Health Limited	Jan-14	Powys	Healthcare	1,640	2,486	-	2,486
24	DisplayPlan Holdings Limited	Jan-12	Baldock	Business services	70	2,015	820	2,835
24	KeTech Enterprises Limited	Nov-15	Nottingham	Software IT & Telecomms	2,000	2,000	-	2,000
25	Business Collaborator Limited	Nov-14	Reading	Software IT & Telecomms	1,340	1,743	-	1,743
25	Springboard Research Holdings Ltd	Oct-14	Bedfordshire	Business services	1,706	1,706	-	1,706
26	Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & brands	1,870	1,690	-	1,690
26	GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Ind Services	741	1,675	609	2,284
27	Immunobiology Limited	Jun-03	Cambridge	Healthcare	2,382	1,486	-	1,486
27	Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Ind Services	934	1,408	-	1,408
28	Matillion Limited	Nov-16	Knutsford	Software IT & Telecomms	1,400	1,400	-	1,400
	Biz2Mobile Limited	Oct-16	Abingdon	Software IT & Telecomms	1,000	1,000	-	1,000
	Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software IT & Telecomms	980	980	-	980
	Macro Art Holdings Limited	Jun-14	Cambridgeshire	Business services	627	959	212	1,171
	The Heritage Window Company Holdco Limited	Sep-14	Sevenoaks	Manufacturing & Ind Services	1,468	954	-	954
	Sipsynergy (via Hosted Network Services Limited)	Jun-16	Ware	Software IT & Telecomms	900	900	-	900
	Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Ind Services	720	883	41	924
	Deep-Secure Limited	Dec-09	Malvern	Software IT & Telecomms	500	625	-	625
	Harvey Jones Holdings Limited	May-07	London	Retail & brands	442	622	751	1,373
	Seven Technologies Holdings Limited	Apr-12	Belfast	Software IT & Telecomms	1,238	619	762	1,381
	PowerOasis Limited	Nov-11	Swindon	Software IT & Telecomms	594	594	-	594
	Selima Holding Company Ltd	Mar-12	Sheffield	Software IT & Telecomms	300	586	-	586
	TeraView Limited	Dec-11	Cambridge	Software IT & Telecomms	375	555	-	555
	Bagel Nash Group Limited	Jul-11	Leeds	Retail & brands / Manufacturing & Ind Services	630	548	200	748
	Other investments £0.5 million and below				3,661	3,382	477	3,859
	Total unquoted investments				30,853	37,247	3,872	41,119
Quoted Portfolio								
	AB Dynamics plc	May-13	Bradford-on-Avon	Manufacturing & Ind Services	123	636	503	1,139
	Other investments £0.5 million and below				1,296	1,436	534	1,970
	Total quoted investments				1,419	2,072	1,037	3,109
					32,272	39,319	4,909	44,228
	Full disposals to date				18,810	-	25,670	25,670
	Total Investment portfolio				51,082	39,319	30,579	69,898

* represents proceeds received to date plus the unrealised valuation at 31 December 2016.

Disposal History to 31 December 2016

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	2,258	2.35	1,297
Sirigen Group Limited	Jun-10	Sep-12	Medical technology	517	1,962	3.79	1,445
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)
Callstream Group Limited	Sep-10	Mar-16	Software	500	1,017	2.03	517
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
Brady plc	Dec-10	Apr-16	Software	603	484	0.80	(119)
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
				14,017	25,426		11,409
Proceeds £0.1m and below				4,793	244		(4,549)
Total				18,810	25,670		6,860

- 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 2015

Name of Company	Investment Valuation at 31 December 2015 £000	Disposal Proceeds £000	Additions including capitalised interest and dividends £000	Valuation gains including profits / (losses) on disposal £000	Investment Valuation at 31 December 2016 £000
Unquoted portfolio					
ACC Aviation (via Newacc (2014) Limited)	1,801	-	-	1,679	3,480
Intelligent Office (via IO Outsourcing Limited)	3,350	-	-	(399)	2,951
Mangar Health Limited	2,201	-	-	285	2,486
DisplayPlan Holdings Limited	1,753	-	-	262	2,015
KeTech Enterprises Limited	2,000	-	-	-	2,000
Business Collaborator Limited	1,384	-	-	359	1,743
Springboard Research Holdings Ltd	1,646	-	60	-	1,706
Gill Marine Holdings Limited	1,778	-	-	(88)	1,690
GTK (Holdco) Limited	1,560	(272)	-	387	1,675
Immunobiology Limited	1,311	-	150	25	1,486
Leengate Holdings Limited	1,143	-	-	265	1,408
Matillion Limited	-	-	1,400	-	1,400
Biz2Mobile Limited	-	-	1,000	-	1,000
Traveltek Group Holdings Limited	-	-	980	-	980
Macro Art Holdings Limited	984	(104)	-	79	959
The Heritage Window Company Holdco Limited	1,101	-	-	(147)	954
Sipsynergy (via Hosted Network Services Limited)	-	-	900	-	900
Wakefield Acoustics (via Malvar Engineering Limited)	761	(41)	-	163	883
Deep-Secure Limited	357	-	-	268	625
Harvey Jones Holdings Limited	1,099	(469)	-	(8)	622
Seven Technologies Holdings Limited	1,208	-	-	(589)	619
PowerOasis Limited	594	-	-	-	594
Selima Holding Company Ltd	463	-	-	123	586
TeraView Limited	488	-	-	67	555
Bagel Nash Group Limited	583	(27)	2	(10)	548
Callstream Group Limited	679	(752)	-	73	-
Other investments £0.5 million and below	5,724	(61)	96	(2,377)	3,382
Total unquoted investments	33,968	(1,726)	4,588	417	37,247
Quoted portfolio					
AB Dynamics plc	809	(503)	-	330	636
Other investments £0.5 million and below	1,875	(645)	-	206	1,436
Total quoted investments	2,684	(1,148)	-	536	2,072
Total Movement	36,652	(2,874)	4,588	953	39,319

INVESTEES COMPANY INFORMATION

Manufacturing and Industrial Services



Fair Value
£7.1m

2015: £8.3m

Number of companies

9.5*

2015: 9.5

Retail and Brands



Fair Value
£3.1m

2015: £4.4m

Number of companies

4.5*

2015: 4.5

Software, IT and Telecommunications



Fair Value
£12.6m

2014: £9.6m

Number of companies

15

2015: 13

Healthcare



Fair Value
£4.9m

2015: £4.4m

Number of companies

6

2014: 6

Business Services



Fair Value
£11.6m

2015: £10.0m

Number of companies

6

2015: 6

* 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 2016. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed below.

ACC Aviation (via Newacc (2014) Limited)

Reigate
www.flyacc.com

Cost:	£1,379,000
Valuation:	£3,480,000
Date of initial Investment:	November 2014
Equity held:	13.22%
Valuation basis:	Earnings multiple
Interest:	£37,011 (2015 £36,910)
Dividends:	£76,268 (2015 £76,060)

Year ended 31 December	2015 £million	2014 £million
Sales	40.56	52.11
EBITA	1.38	1.12

Adjusted to reflect underlying performance as a full year's trading results have not been filed.

With annual sales of over £40m, **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. The business has successfully transitioned from a simple broker to providing a range of solutions.



Intelligent Office [via IO Outsourcing Limited]

Alloa

www.intelligentofficeuk.com

Cost:	£1,956,000
Valuation:	£2,951,000
Date of initial Investment:	May 2014
Equity held:	17.77%
Valuation basis:	Earnings multiple
Interest:	£39,423 (2015 £39,316)
Dividends:	£84,594 (2015 £84,594)

Year ended 30 September	2016 £million	2015 £million
Sales	29.12	22.70
EBITA	1.67	1.52
Profit (loss) before tax	0.06	(0.15)
Retained losses	(0.87)	(0.62)
Net assets	7.16	7.29

Intelligent Office is a leading provider of process outsourcing solutions to UK legal practices. This typically includes improvements to services offered in addition to operational efficiency. 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:	£2,486,000
Date of initial Investment:	January 2014
Equity held:	17.10%
Valuation basis:	Earnings multiple
Interest:	£131,559 (2015 £131,200)
Dividends:	£14,194 (2015 £6,773)

Year ended 31 July	2016 £million	2015 £million
Sales	7.74	7.39
EBITA	1.54	1.41
Profit before tax	0.06	0.08
Retained losses	(0.33)	(0.25)
Net assets	0.66	0.74

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, as well as providing significant cost savings for care providers.



DisplayPlan Holdings Limited

Baldock
www.displayplan.com

Cost:	£70,000
Valuation:	£2,015,000
Date of initial Investment:	January 2012
Equity held:	12.25%
Valuation basis:	Earnings multiple
Interest:	£nil (2015 £19,132)
Dividends:	£73,500 (2015 £16,306)

Year ended 31 December	2015 £million	2014 £million
Sales	16.40	14.64
EBITA	1.53	1.01
Profit before tax	1.10	0.64
Retained profits	5.02	4.20
Net assets	5.42	4.60

DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. The business is typically engaged very early to help define brand values and concepts. Strong profits have been achieved since investment with an emphasis on continuing to broaden its customer base.



KeTech Enterprises Limited

Nottingham
www.ketech.com

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:	£86,131 (2015 £12,319)
Dividends:	£48,432 (2015 £7,543)

Year ended 31 August	2016 £million	2015 £million
Sales	7.13	6.87
EBITA	0.44	1.41

Adjusted to reflect a full year's trading as the investment was made during the year.

KeTech is a specialist manufacturer and distributor to the rail communications and defence sectors. Its core rail products include on train and on platform solutions and are increasingly being specified on some high profile new projects and upgrades.



Business Collaborator Limited

Reading
www.groupbc.com

Cost:	£1,340,000
Valuation:	£1,743,000
Date of initial Investment:	November 2014
Equity held:	19.38%
Valuation basis:	Earnings multiple
Interest:	£119,311 (2015 £121,400)

Year ended 30 November **2015**
£million

Sales	2.86
EBITA	0.21
Loss before tax	(0.26)
Retained losses	(0.26)
Net assets	0.21

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. Revenues are derived from a SaaS software model. 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.



Springboard Research Holdings Limited

Bedfordshire
www.spring-board.info

Cost:	£1,706,000
Valuation:	£1,706,000
Date of initial Investment:	October 2014
Equity held:	12.95%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£107,353 (2015 £65,617)
Dividends:	£59,298 (2015 £59,136)

Year ended 31 December **2015**
£million

Sales	4.10
EBITA	0.01
Loss before tax	(0.93)
Retained losses	(0.95)
Net assets	2.08

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. The company has seen a significant increase in sales to North America.



Gill Marine Holdings Limited

Nottingham
www.gillmarine.com

Cost:	£1,870,000
Valuation:	£1,690,000
Date of initial Investment:	September 2013
Equity held:	13.81%
Valuation basis:	Earnings multiple
Interest:	£168,761 (2015 £168,300)

Year ended 30 September	2016 £million	2015 £million
Sales	12.23	12.34
EBITA	1.45	1.52
(Loss) profit before tax	(0.87)	0.43
Retained (losses) profits	(0.51)	0.39
Net assets	1.06	1.95

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 into adjacent markets and increase its share in existing and new markets, including direct to the customer through its relaunched website.



GTK (Holdco) Limited

Basingstoke
www.gtk.co.uk

Cost:	£741,000
Valuation:	£1,675,000
Date of initial Investment:	October 2013
Equity held:	17.70%
Valuation basis:	Earnings multiple
Interest:	£48,194 (2015 £54,669)

Year ended 31 July	2016 £million	2015 £million
Sales	12.19	10.61
EBITA	1.08	0.78
Profit before tax	0.62	0.29
Retained profits	0.97	0.29
Net assets	1.61	0.93

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.



Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£2,382,000
Valuation:	£1,486,000
Date of initial Investment:	June 2003
Equity held:	26.70%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia. It has concluded a successful phase 1 human trial for its pneumonia vaccine and is currently exploring commercial collaborations to fund further work or realise value.



Year ended 31 May	2016 £million	2015 £million
Sales	-	-
LBITA	(1.95)	(1.70)
Loss before tax	(1.94)	(1.69)
Retained losses	(12.04)	(10.65)
Net assets	1.17	0.97

Leengate Holdings Limited

Derbyshire
www.leengatevalves.co.uk

Cost:	£934,000
Valuation:	£1,408,000
Date of initial Investment:	December 2013
Equity held:	7.00%
Valuation basis:	Earnings multiple
Interest:	£75,737 (2015 £78,456)
Dividends:	£22,477 (2015 £22,416)

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.



Year ended 31 December	2015 £million	2014 £million
Sales	7.83	7.50
EBITA	1.53	1.19
Profit before tax	0.63	0.27
Retained profits	0.48	0.11
Net assets	1.06	0.69

Matillion Limited

Knutsford
www.matillion.com

Cost:	£1,400,000
Valuation:	£1,400,000
Date of initial Investment:	November 2016
Equity held:	10.50%
Valuation basis:	Cost, reviewed for change in fair value

Year ended 31 December **2016**
£million

Sales	1.29
LBITA	(0.78)

Adjusted to reflect underlying performance as a full year's trading results have not been filed.

Matillion is a leading provider of cloud-based integration technologies and an Advanced Technology Partner to Amazon Web Services. Products enable its customers to store securely and easily access large quantities of their data in the cloud.



RISK FACTORS

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

The Board seeks to mitigate its principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial

Reporting Council in September 2014. Details of the Company's internal controls are contained in the Corporate Governance Internal Control section on pages 40 and 41 and further information on exposure to risks including those associated with financial instruments is given in note 17a of the financial statements.

Loss of Approval as a VCT

Risk - The Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from corporation tax on capital gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

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

Regulatory

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

Mitigation - The Investment Adviser and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on pages 40 and 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 managed/advised by the Investment Adviser, have been agreed between the Investment Adviser and the Company. Advice is sought from external advisors where required. Both the Company and the Investment Adviser maintain appropriate insurances.

Operational

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

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

Financial

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

Mitigation - The key controls around financial reporting are described on pages 40 and 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 or on the main market does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. 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 liquid resources are maintained to pay expenses as they fall due, in the event that investments prove difficult to realise.

OTHER MATTERS

Environment

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

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment and has introduced an electronic communications policy. This policy has led to a significant increase in the number of such communications, with a commensurate reduction in the distribution of hard copy documents. The management and administration of the Company is undertaken by the Investment Adviser. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies to reduce any damage that might be caused by its activities. Initiatives of the Investment Adviser designed to minimise its and the Company's impact on the environment include recycling and reducing energy consumption. Given the size and nature of the Company's activities and the fact that it has no employees, the Board considers there is limited scope to develop and implement social and community policies.

Anti-Bribery and Corruption Policy

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

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

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

The Strategic Report on pages 6 to 31 is approved

By Order of the Board



Richard Last
Chairman

21 March 2017

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 which is listed on the main market of the London Stock Exchange. He is also a chairman and non-executive director of Gamma Communications plc, Lighthouse Group plc, Tribal 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, Odos Imaging Limited and Pervasid Limited as well as being a 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
110 George Street
Edinburgh
EH2 4LH

Registered No: SC269164

Registered Office of the Company

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

Registered No: 04084003

DIRECTORS' REPORT

For the year ended 31 December 2016

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2016.

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 7 to 31. The principal risks and uncertainties the Company faces are detailed on pages 29 to 30.

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 £1,412,000 (2015: £4,132,000).

During the year the Company paid a total of £4,191,000 (2015: £3,887,000) 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 1.5 pence per ordinary share (2015: 2.5 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 10 May 2017.

The net asset value per ordinary share at 31 December 2016 was 59.7 pence (2015: 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 29 to 30, 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 36 to 41 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 a general meeting held on 6 May 2016) 417,743 ordinary shares of 10 pence each in the

market (as disclosed in the table below) for aggregate consideration of £240,000. These shares are held in treasury.

Under the existing authority, which expires on 6 May 2019, the Company has the power to purchase shares up to 14.99 per cent of the Company's ordinary share capital as at 24 March 2016, being 13,932,647 ordinary shares.

During the year to 31 December 2016 a total of 7,129,482 ordinary shares were issued. As a result of the offer for subscription 5,683,709 shares were issued, while 1,445,773 were issued under the Company's DRIS. 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 10 May 2017 up to an aggregate nominal amount of £3,000,000.

This authority will be replaced by a new authority to issue shares up to an aggregate nominal amount of £4,000,000 at the next Annual General Meeting.

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.

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.

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)
24 March 2016	74,364	0.08%	56.86
27 April 2016	62,946	0.07%	57.63
15 June 2016	102,220	0.11%	58.30
29 November 2016	178,213	0.19%	57.54

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 2016, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 42 to 44.

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 2016 and the date of this report.

Independent Auditor

The Board has carried out a competitive tender process for the provision of audit services and, as a result, Grant Thornton LLP resigned as the Company's auditor. The Board appointed BDO LLP to fill the casual vacancy until the Company's next Annual General Meeting.

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

No fees are payable to the auditor in respect of non-audit services.

Employment Policies

The employment policies of the Company are set out on page 43.

Events after the Balance Sheet Date

Subsequent to the year end the Company allotted a total of 6,787,231 ordinary shares on 10 February 2017 pursuant to the offer detailed under "Fundraising" on page 8, raising net proceeds of approximately £4.1 million.

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 9) to be proposed to ensure the directors retain the authority to allot shares in the Company until the date of the 2018 Annual General Meeting up to an aggregate nominal amount of £4,000,000 (representing approximately 41 per cent of the issued ordinary share capital of the Company as at 10 May 2017, excluding treasury shares).

Also included are three Special resolutions:

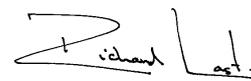
Resolution 10 is proposed to empower the directors to allot shares under the authority granted by resolution 9 and to sell treasury shares without regard to any rights of pre-emption on the part of the existing shareholders.

Resolution 11 is proposed to amend the Articles of Association to increase the cap on aggregate directors' fees to £100,000 per annum.

The directors have agreed to forego the ability to reclaim certain expenses and their fees were increased to compensate for this. As a result the cap on aggregate director's fees of £75,000 has been reached and your Board propose to increase the cap on aggregate fees to £100,000 in order to provide the flexibility to recruit new Directors in the future.

Resolution 12 will, if passed, approve, subject to the sanction of the High Court, the cancellation of the amount standing to the credit of the share premium account of the Company at the date that the court order granting the cancellation is made. The directors consider it appropriate to obtain the approval of shareholders to cancel the share premium account (subject to the sanction of the High Court) to create further distributable reserves to fund distributions to shareholders and share buy-backs, to set off or write off losses and for other corporate purposes of the Company. Application to court will be made if and when the Board feels this is appropriate. This authority is being taken now to provide flexibility to the Board in the future without a further general meeting of the Company having to be convened.

This report was approved by the Board on 21 March 2017 and signed on its behalf by



Richard Last
Chairman

British Smaller Companies VCT2 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 July 2016 ("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 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 2016 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 April 2016 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 32.

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 seven formal Board meetings, three Audit Committee meetings, one Allotment Committee meeting, and one General Meeting. The directors met via telephone and electronic conferences on 16 other occasions.

Meetings attended				
	Mr R Last	Mr P C Waller	Mr R M Pettigrew	Total
Board meetings	7	7	7	7
Audit Committee	3	3	3	3
Allotment Committee	1	1	1	1
Telephone and electronic conferences	15	16	16	16
General meetings	1	1	1	1
Total	27	28	28	28

As set out on page 39 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 2016. 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 42 to 44.

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 pages 40 and 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 2016 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;
- recommending to the Board and shareholders the re-appointment of Grant Thornton UK LLP as the Company's external auditor; and
- undertaking a competitive tendering process for external auditing services, resulting in the appointment of BDO LLP to fill the casual vacancy.

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 BDO LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of audit effectiveness and independence, BDO LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. BDO LLP was appointed as the result of a competitive tendering process in 2016. As a consequence, this is their first year of office as auditor.

Having completed its review the Audit Committee is satisfied that BDO 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 BDO 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 2016 and up to the date of this report. A detailed review of the risks faced by the Company and the techniques used to mitigate these risks can be found in the Strategic Report on page 29.

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 page 38);
- 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.

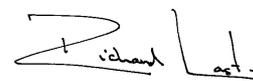
Co-Investment

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 21 March 2017 and signed on its behalf by



Richard Last
Chairman

British Smaller Companies VCT2 plc

Registered number 04084003

DIRECTORS' REMUNERATION REPORT

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

The law requires the Company's auditor, BDO 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 46 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 99 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, whose 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.

The policy will continue to be applied in the forthcoming year.

Brief biographical notes on the directors are given on page 32.

Statement by the Chairman of the Nominations Committee

In accordance with the Directors' Remuneration Policy the directors' fees were reviewed by the Board during the year. The Board agreed that the directors' fees payable by the Company should be increased from 1 April 2016 to £34,000 per annum for the Chairman and £20,500 per annum for the other directors.

As noted on page 35 the directors have agreed to forego the ability to reclaim certain expenses and their fees were increased to compensate for this. As a result the cap on aggregate director's fees of £75,000 has been reached and your Board propose to increase the cap on aggregate fees to £100,000 in order to provide the flexibility to recruit new directors in the future.

Directors' Remuneration for the year ended 31 December 2016 (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 (2015: none).

Directors and their Interests (audited)

The directors of the Company at 31 December 2016 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

	2016 €	2015 €
R Last	33,375	31,500
R M Pettigrew	19,875	18,000
P C Waller	19,875	18,000
	73,125	67,500

Directors and their interests (audited)

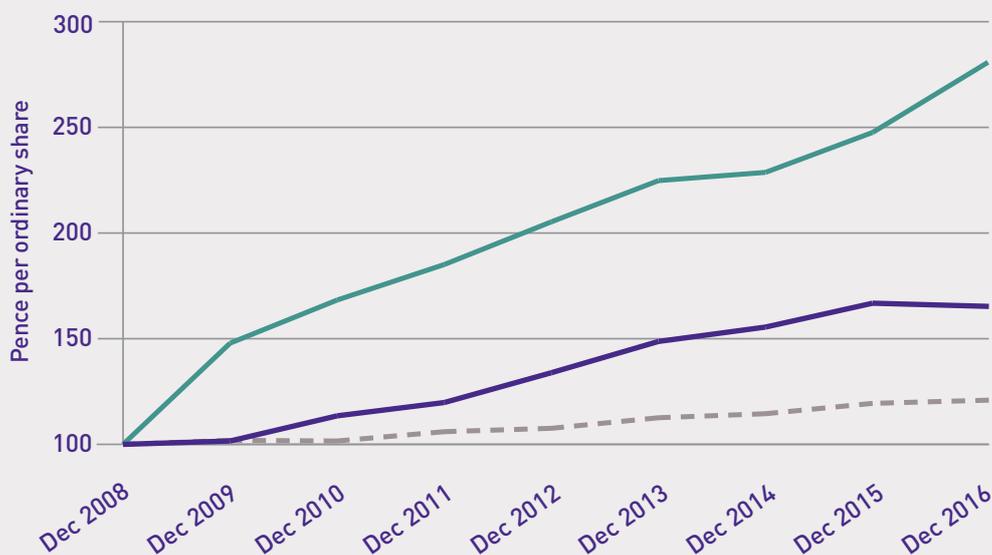
TABLE B

	Number of ordinary shares at:		Percentage of voting rights:	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
R Last	134,632	134,632	0.14%	0.15%
R M Pettigrew	80,333	80,333	0.09%	0.09%
P C Waller	35,560	35,560	0.04%	0.04%

Relative importance of pay

TABLE C

	2016 €	2015 €
Dividends	4,191,000	3,887,000
Share buy-backs	240,000	123,000
Total directors fees	73,125	67,500



— VCT Generalist Share Price Total Return
(Source: Index compiled by the AIC)

— 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 eight 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 21 March 2017

Richard Last
Chairman

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

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

Directors' Responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

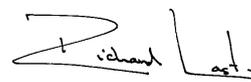
- the financial statements have been prepared in accordance with IFRSs as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the annual report includes a fair review of the development and performance of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

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

The names and functions of all the directors are stated on page 32.

For and on behalf of the Board

This statement was approved by the Board and signed on its behalf on 21 March 2017.



Richard Last
Chairman

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH SMALLER COMPANIES VCT2 PLC

Our opinion on the financial statements

In our opinion British Smaller Companies VCT2 plc's financial statements for the year ended 31 December 2016, which have been prepared by the directors in accordance with applicable law and International Financial Reporting Standards as adopted by the European Union ("IFRSs"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 our opinion covers

Our audit opinion on the financial statements covers the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibility Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

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

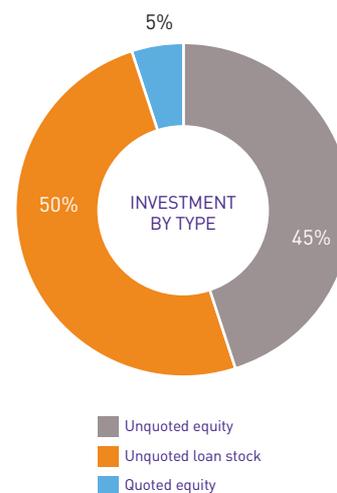
An overview of the scope of the audit including our assessment of the risk of material misstatement

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Adviser and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest effect on the overall audit strategy including the allocation of resources in the audit, and our audit response:

Valuation of investments

The valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Adviser, who is remunerated based on the net asset value of the company. In addition, there is a high level of estimation uncertainty involved in determining the unquoted investment valuations.

We performed initial analytical procedures to determine the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement. A breakdown of the investment portfolio by nature of instrument and valuation method is shown below.



In respect of unquoted equity our sample for testing was stratified according to risk, having regard to the subjectivity of the inputs to the valuations. 40% of the portfolio is based on price of recent investment or cost, reviewed for impairment. For such investments, on a sample basis, we verified the cost or price of recent investment to supporting documentation and reviewed the Investment Adviser's determination of whether there were any reasons why the valuation did not remain appropriate, including obtaining evidence of the cash balance where appropriate.

59% of the unquoted investment portfolio is valued in accordance with more subjective techniques, mainly on an earnings multiple basis, as described in note 7. In respect of the sample selected for detailed testing (representing 99% by value of the investments valued using more subjective techniques) we:

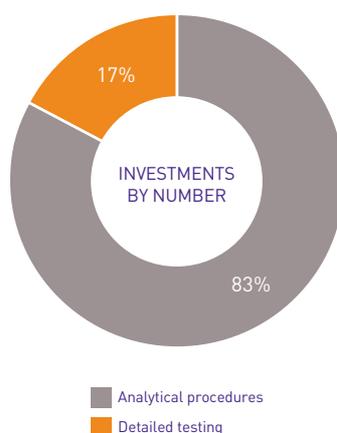
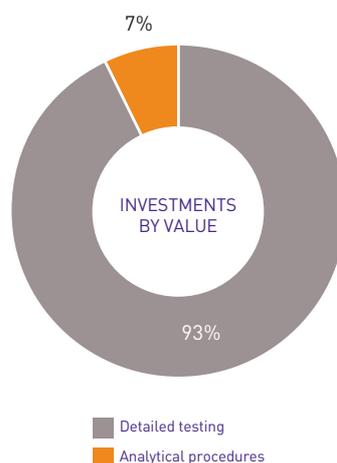
- recalculated the value attributable to the company;
- reviewed and challenged the inputs to the valuation and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements;
- reviewed the historical financial statements and recent management information available for unquoted investments used to support assumptions about maintainable earnings used in the valuations;
- considered the earnings multiples applied by reference to observable listed company market data; and
- challenged adjustments made to such market data in establishing the earnings multiple applied in arriving at the valuations adopted.

Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias.

In respect of quoted equity investments (5% of the total portfolio value), we obtained the year end price and confirmed that bid price had been used as the most appropriate indication of fair value.

The remainder of the portfolio was subject to analytical procedures to confirm there were no unexpected movements in value warranting further investigation.

The extent of our testing is detailed below:



Revenue recognition

Revenue consists primarily of interest earned on loans to investee companies and cash balances, as well as dividends receivable from investee companies. Revenue recognition is considered to be a significant audit risk as it is a key factor in demonstrating the performance of the portfolio.

We developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure

they were valid. We traced a sample of interest income receipts to bank.

We considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest. We considered the appropriateness of the accounting treatment of other fixed returns, including redemption premia.

We considered the completeness of dividend income receivable by reviewing independent data including published dividend histories for quoted investments and statutory and management information for a sample of unquoted investments. We traced dividend income received to bank statements and considered the appropriate classification of dividends between revenue and capital.

The audit committee's consideration of their key issues is set out on page 39.

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated on page 48.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (2% value of investments)	Assessing whether the financial statements as a whole present a true and fair view	<ul style="list-style-type: none"> The value of investments The level of judgement inherent in the valuation The range of reasonable alternative valuation 	800,000
Specific materiality – classes of transactions and balances which impact on revenue profits (10% revenue return before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none"> The level of net income return 	120,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the company

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion: based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

We have nothing 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 entity, 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 considered it appropriate to adopt the going concern basis of accounting

- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Matters on which we are required to report by exception

<p>Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:</p> <ul style="list-style-type: none"> 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 is otherwise misleading. <p>In particular, we are required to consider whether 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 and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.</p>	<p>We have nothing to report in respect of these matters.</p>
<p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.</p>	<p>We have nothing to report in respect of these matters.</p>
<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> 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. 	<p>We have nothing to report in respect of these matters.</p>
<p>Under the Listing Rules we are required to review the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for review by the auditor in accordance with Listing Rule 9.8.10 R(2). The Listing Rules also require that we review the directors' statements set out on page 33 regarding going concern and longer term viability.</p>	<p>We have nothing to report in respect of these matters.</p>

Peter Smith (senior statutory auditor)

For and on behalf of BDO LLP,
statutory auditor
London
United Kingdom

21 March 2017

BDO LLP is a limited liability partnership

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016			2015		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Income	2	1,937	-	1,937	1,953	-	1,953
Gains on investments held at fair value	7	-	704	704	-	3,316	3,316
Gain on disposal of investments	7	-	339	339	-	232	232
Total income		1,937	1,043	2,980	1,953	3,548	5,501
Administrative expenses:							
Investment Adviser's fee		(280)	(839)	(1,119)	(234)	(701)	(935)
Other expenses		(449)	-	(449)	(434)	-	(434)
	3	(729)	(839)	(1,568)	(668)	(701)	(1,369)
Profit before taxation		1,208	204	1,412	1,285	2,847	4,132
Taxation	4	(116)	116	-	(152)	152	-
Profit for the year		1,092	320	1,412	1,133	2,999	4,132
Total comprehensive income for the year		1,092	320	1,412	1,133	2,999	4,132
Basic and diluted earnings per ordinary share	6	1.17p	0.34p	1.51p	1.36p	3.60p	4.96p

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.

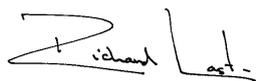
BALANCE SHEET

At 31 December 2016

	Notes	2016 €000	2015 €000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	39,319	36,652
Trade and other receivables	8	837	678
		40,156	37,330
Current assets			
Trade and other receivables	8	391	368
Cash on fixed term deposit	9	3,037	1,992
Cash and cash equivalents	9	12,826	15,444
		16,254	17,804
Liabilities			
Current liabilities			
Trade and other payables	10	(301)	(284)
Net current assets		15,953	17,520
Net assets		56,109	54,850
Shareholders' equity			
Share capital	11	9,652	8,939
Share premium account		16,902	13,337
Capital redemption reserve		88	88
Other reserve		2	2
Merger reserve		5,525	5,525
Capital reserve		15,621	20,781
Investment holding gains and losses		7,077	5,127
Revenue reserve		1,242	1,051
Total shareholders' equity		56,109	54,850
Net asset value per ordinary share	12	59.7p	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 21 March 2017.



Richard Last
Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains (losses)	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2014	6,447	342	5,615	24,822	1,507	600	39,333
<i>Revenue return for the year</i>	-	-	-	-	-	1,285	1,285
<i>Capital expenses</i>	-	-	-	(701)	-	-	(701)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	3,316	-	3,316
<i>Realisation of investments in the year</i>	-	-	-	232	-	-	232
<i>Taxation</i>	-	-	-	152	-	(152)	-
Total comprehensive (expense) income for the year	-	-	-	(317)	3,316	1,133	4,132
<i>Issue of share capital</i>	2,366	13,056	-	-	-	-	15,422
<i>Issue costs **</i>	-	(667)	-	(92)	-	-	(759)
<i>Purchase of own shares</i>	-	-	-	(123)	-	-	(123)
<i>Issue of shares – DRIS</i>	126	606	-	-	-	-	732
<i>Dividends</i>	-	-	-	(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	5,615	20,781	5,127	1,051	54,850
<i>Revenue return for the year</i>	-	-	-	-	-	1,208	1,208
<i>Capital expenses</i>	-	-	-	(839)	-	-	(839)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	704	-	704
<i>Realisation of investments in the year</i>	-	-	-	339	-	-	339
<i>Taxation</i>	-	-	-	116	-	(116)	-
Total comprehensive (expense) income for the year	-	-	-	(384)	704	1,092	1,412
<i>Issue of share capital</i>	568	3,030	-	-	-	-	3,598
<i>Issue costs **</i>	-	(146)	-	-	-	-	(146)
<i>Purchase of own shares</i>	-	-	-	(240)	-	-	(240)
<i>Issue of shares – DRIS</i>	145	681	-	-	-	-	826
<i>Dividends</i>	-	-	-	(3,321)	-	(870)	(4,191)
Total transactions with owners	713	3,565	-	(3,561)	-	(870)	(153)
Transfer between reserves	-	-	-	(1,933)	1,964	(31)	-
Realisation of prior year investment holding gains	-	-	-	718	(718)	-	-
Balance at 31 December 2016	9,652	16,902	5,615	15,621	7,077	1,242	56,109

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 2016

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	15,621	1,242	16,863
Less : Interest and dividends not yet distributable	-	(1,065)	(1,065)
: Cancelled share premium not yet distributable	(1,343)	-	(1,343)
Reserves available for distribution***	14,278	177	14,455

* Other reserves include the capital redemption reserve, the merger reserve and the other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants, the capital redemption reserve was created for the purchase and cancellation of own shares, and the merger reserve was created on the merger with British Smaller Technologies Company VCT plc.

** 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 £16,863,000 representing a decrease of £4,969,000 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 £16,863,000 shown above, £1,065,000 relates to interest and dividends not yet distributable and £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 £14,455,000.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 £000	2015 £000
Net cash inflow from operating activities		20	147
Cash flows from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	(4,508)	(7,239)
Proceeds from sale of financial assets at fair value through profit or loss	7	2,874	2,458
Deferred consideration	7	183	13
Cash placed on fixed term deposit		(1,045)	(1,992)
Net cash outflow from investing activities		(2,496)	(6,760)
Cash flows from (used in) financing activities			
Issue of ordinary shares		3,598	15,422
Costs of ordinary share issues*		(146)	(733)
Purchase of own ordinary shares		(240)	(123)
Dividends paid	5	(3,354)	(3,142)
Net cash (outflow) inflow from financing activities		(142)	11,424
Net (decrease) increase in cash and cash equivalents		(2,618)	4,811
Cash and cash equivalents at the beginning of the year		15,444	10,633
Cash and cash equivalents at the end of the year	9	12,826	15,444

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

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

	2016 £000	2015 £000
Profit before taxation	1,412	4,132
Increase in trade and other payables	6	24
Increase in trade and other receivables	(275)	(345)
Gains on disposal of investments in the year	(339)	(232)
Profit on investments held at fair value	(704)	(3,316)
Capitalised interest and dividends	(80)	(116)
Net cash inflow from operating activities	20	147

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 2016

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. New standards coming into force during the year have not had a material impact on these financial statements.

Standards, amendments to standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include IFRS 9, IFRS 15, IFRS 16, IFRIC 22 and amendments to IFRS 1, IFRS 2, IFRS 4, IFRS 12, IFRS 15, IFRS 16, IAS 7, IAS 12, IAS 28 and IAS 40. Following an initial assessment, the Company does not expect that these standards, amendments and interpretations, issued but not yet effective, will have a material impact on its results or net assets.

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

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 on the whole unit of account basis 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, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and FRS 11 'Joint arrangements' which give 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 IFRS 13 "Fair Value 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.

1. Principal Accounting Policies (continued)

Initial measurement

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

Subsequent measurement

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

Unquoted Investments

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.
- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.
- **Sales multiples and industry valuation benchmarks.** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

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

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

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

Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. Where the Company judges that the level of trading does not meet these requirements one of the methodologies above will be used to value the investment. No methodology other than active market bid price has been applied as at 31 December 2016

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 their 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, 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; and
- Credits arising from cancellation of any 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.

1. Principal Accounting Policies (continued)

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

Taxation

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

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

Dividends Payable

Dividends payable are recognised only when an obligation exists. Interim 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

	2016 €000	2015 €000
Dividends from unquoted companies	611	490
Dividends from AIM quoted companies	17	35
Interest on loans to unquoted companies	1,140	1,264
Income from investments held at fair value through profit or loss	1,768	1,789
Interest on bank deposits	169	164
	1,937	1,953

The above is stated net of €133,000 (2015: €nil) of income in relation to loan interest and preference dividends, which has been fully provided for.

3. Administrative Expenses

	2016 €000	2015 €000
Investment Adviser's fee	1,119	935
Administration fee	62	61
Total payable to YFM Private Equity Limited	1,181	996
Other expenses:		
Trail commission	133	134
Directors' remuneration	81	76
General expenses	52	43
Listing and registrar fees	46	57
Printing	34	24
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	23	19
Irrecoverable VAT	18	20
	1,568	1,369
Ongoing charges figure	2.51%	2.28%

Directors' remuneration comprises only short term benefits including social security contributions of €7,000 (2015: €6,000).

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

No fees are payable to the auditor in respect of non-audit services supplied pursuant to legislation (2015: €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 2016 of €56.109 million, this equates to 2.0 per cent per cent of net assets, or €1,122,000 per annum;

3. Administrative Expenses (continued)

- 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 £62,000 for the year ended 31 December 2016 (2015: £61,000).

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 2016, the Company was due a rebate from the Investment Adviser of £Nil (2015: £Nil).

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

The total remuneration payable to YFM Private Equity Limited under the IAA in the period was £1,181,000 (2015: £996,000).

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2016 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £412,000 (2015: £340,000).

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 2016 the total of cumulative cash dividends paid and mid-market price was 112.50 pence per ordinary share. No shares have been issued under this agreement.

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 cost of incentive shares and 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 this offer out of this fee, including any payment or re-investment of initial intermediary commissions.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 43 under the heading "Directors' Remuneration for the year ended 31 December 2016 (audited)".

4. Taxation

	2016			2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	1,208	204	1,412	1,285	2,847	4,132
Profit before taxation multiplied by standard rate of corporation tax in UK of 20% (2015: 20%)	242	40	282	257	569	826
Effect of:						
UK dividends received	(126)	-	(126)	(105)	-	(105)
Non-taxable profits on investments	-	(209)	(209)	-	(709)	(709)
Excess advisory expenses	-	53	53	-	(12)	(12)
Tax charge (credit)	116	(116)	-	152	(152)	-

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

Deferred tax assets of £514,000 calculated at 17% (2015: £497,000 at 18%) in respect of unrelieved management expenses (£3.021 million as at 31 December 2016 and £2.761 million as at 31 December 2015) 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:

	2016			2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2015 of 2.5p (2014: 2.5p) per ordinary share	277	2,045	2,322	268	1,885	2,153
Interim dividend for the year ended 31 December 2016 of 2.0p (2015: 2.0p) per ordinary share	593	1,276	1,869	414	1,320	1,734
	870	3,321	4,191	682	3,205	3,887
Shares allotted under DRIS			(826)			(732)
Unclaimed dividends			(11)			(13)
Dividends paid in Statement of Cash Flows			3,354			3,142

The final year-end dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2015 was paid on 9 May 2016 to shareholders on the register at 8 April 2016.

The interim dividend of 2.0 pence per ordinary share was paid on 26 September 2016 to shareholders on the register as at 26 August 2016.

A final dividend of 1.5 pence per ordinary share in respect of the year to 31 December 2016 is proposed. This dividend has not been recognised in the year ended 31 December 2016 as the obligation did not exist at the balance sheet date.

During the year the Company has received £14,000 (2015: £16,000) from the Registrars in respect of unclaimed dividends. The Company has made efforts to contact the relevant shareholders, with the result that £3,000 (2015: £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 £1,412,000 (2015: £4,132,000) and 93,363,744 (2015: 83,224,240) 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 £1,092,000 (2015: £1,133,000) and 93,363,744 (2015: 83,224,240) 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 £320,000 (2015: £2,999,000) and 93,363,744 (2015: 83,224,240) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 5,683,709 new ordinary shares from a top up offer, and 1,445,773 new ordinary shares in respect of its DRIS.

The Company has also repurchased 417,743 of its own shares in the year, and these shares are held in the capital reserve. The total of 2,545,746 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 2016 or 31 December 2015

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 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. The majority of the Company's investments fall into this category.

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.

There have been no transfers between these classifications in either period.

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.

Movements in investments at fair value through profit or loss during the year to 31 December 2016 are summarised as follows:

IFRS13 measurement classification	Level 3	Level 1	Total Investments £000
	Unquoted Investments £000	Quoted Equity Investments £000	
Opening cost	29,332	2,223	31,555
Opening investment holding gain	4,636	461	5,097
Opening fair value at 1 January 2016	33,968	2,684	36,652
Additions at cost	4,508	-	4,508
Capitalised interest and dividends	80	-	80
Disposal proceeds	(1,727)	(1,147)	(2,874)
Net profit on disposal*	133	116	249
Change in fair value	285	419	704
Closing fair value at 31 December 2016	37,247	2,072	39,319
Closing cost	30,853	1,419	32,272
Closing investment holding gain**	6,394	653	7,047
Closing fair value at 31 December 2016	37,247	2,072	39,319

* The net profit on disposal in the table above is £249,000 whereas that shown in the Statement of Comprehensive Income is £339,000. The difference comprises deferred proceeds of £90,000 in respect of assets which have been disposed of and are not included within the investment portfolio at the year-end (see page 65).

** 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 2016 a total of £30,000 (2015: £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 (2015: £nil).

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, 59 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 ratios and discounts applied in arriving at investments valued on an earnings multiple basis. 35 per cent are recent deals held at cost. The remaining 6 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 inputs					
PE Multiple Range	24.18 – 32.34	15.99 – 27.26	36.29	35.25	24.18 – 24.63
PE Multiple Weighted Average	29.45	19.31	36.29	35.25	24.46
Combined PE and/or Marketability Discount Range	56% - 72%	48% - 60%	40% - 68%	72%	60% - 68%
Combined PE and/or Marketability Discount Weighted Average	68%	52%	60%	72%	64%

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 ratios) 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 £2.7 million or 7.1 per cent lower. Using the upside alternative the value would be increased by £2.6 million or 7.1 per cent.

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

IFRS 13 measurement classification	Level 3*	Level 1	Total Investments £000
	Unquoted Investments £000	Quoted Equity 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

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

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

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2016	Profit (loss) on disposal
	£000	£000	£000	£000
<i>Unquoted investments:</i>				
Bagel Nash Group Limited	27	27	27	-
Callstream Group Limited	752	329	679	73
Cambrian Park and Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	61	61	61	-
GTK (Holdco) Limited	272	72	212	60
Harvey Jones Holdings Limited	469	469	469	-
Macro Art Holdings Limited	104	104	104	-
Wakefield Acoustics (via Malvar Engineering Limited)	41	41	41	-
<i>Quoted investments:</i>				
AB Dynamics plc	503	131	416	87
Brady plc	320	498	315	5
Gamma Communications plc	170	73	171	(1)
Gooch & Housego plc	155	102	130	25
Total proceeds on disposals in the year	2,874	1,907	2,625	249
<i>Deferred proceeds:</i>				
Ellfin Homecare Limited	1	-	-	1
Primal Pictures Limited	2	-	-	2
Silistix Limited	9	-	-	9
Sirigen Group Limited	171	-	93	78
Deferred proceeds received	183	-	93	90
Total proceeds from quoted and unquoted investments	3,057	1,907	2,718	339

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

The following disposals took place in 2015:

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2015	Profit (loss) on disposal
	£000	£000	£000	£000
<i>Unquoted investments:</i>				
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	-
<i>Quoted investments:</i>				
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
<i>Deferred proceeds:</i>				
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

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 2016 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No of shares held by the Company	Percentage of class held by the Company*	Percentage of class held by commonly advised/managed funds*
ACC Aviation (via Newacc (2014) Limited)	Business Services	14,365,817	13%	50%
Bagel Nash Group Limited	Food Retail and Manufacturing	33,091	5%	40%
Biz2Mobile Limited	Software IT & Telecomms	1,694,916	11%	27%
Business Collaborator Limited	Software IT & Telecomms	126,000	19%	48%
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	Manufacturing & Industrial	100,000	16%	41%
Deep-Secure Limited	Software IT & Telecomms	49,678	8%	57%
DisplayPlan Holdings Limited	Business Services	1,260	12%	35%
EL Support Services Limited	Business Services	3,500	50%	100%
Gill Marine Holdings Limited	Retail & Brands	138,137	14%	66%
GTK (Holdco) Limited	Manufacturing & Industrial	14,603,200	18%	48%
Harvey Jones Holdings Limited	Retail & Brands	38,858	3%	30%
The Heritage Windows Company Holdco Limited	Manufacturing & Industrial	1,142,400	28%	70%
Immunobiology Limited	Healthcare	20,109,968	27%	27%
Intamac Systems Limited	Software IT & Telecomms	1,500,000	12%	34%
Intelligent Office (via IO Outsourcing Limited)	Business Services	106,609	18%	44%
KeTech Enterprises Limited	Software IT & Telecomms	128,333	13%	38%
Macro Art Holdings Limited	Business Services	100,000	13%	32%
Mangar Health Limited	Healthcare	78,555	17%	48%
Matillion Limited	Software IT & Telecomms	22,987	11%	30%
NB Technology Services Limited	Software IT & Telecomms	3,500	50%	100%
Ness (Holdings) Limited	Retail & Brands	10,000,000	17%	43%
OC Engineering Services Limited	Retail & Brands	3,500	50%	100%
RMS Group Holdings Limited	Manufacturing & Industrial	59,619	3%	23%
Seven Technologies Holdings Limited	Software IT & Telecomms	619,130	6%	38%
SH Healthcare Services Limited	Healthcare	3,500	50%	100%
Sipsynergy (via Hosted Network Services Limited)	Software IT & Telecomms	135,832	10%	30%
SP Manufacturing Services Limited	Manufacturing & Industrial	3,500	50%	100%
Springboard Research Holdings Limited	Business Services	171,892	13%	32%
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing & Industrial	49,600	15%	37%

*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 2016 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 2015 Co-Investment LP £000	Total £000
AB Dynamics plc	123	137	-	-	-	260
ACC Aviation (via Newacc (2014) Limited)	1,379	2,068	-	-	1,723	5,170
Bagel Nash Group Limited	630	944	-	2,185	-	3,759
Biz2Mobile Limited	1,000	1,500	-	-	-	2,500
Business Collaborator Limited	1,340	2,010	-	-	-	3,350
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	1,072	1,608	-	-	-	2,680
Deep-Secure Limited	500	1,000	-	2,000	-	3,500
DisplayPlan Holdings Limited	70	130	-	-	-	200
EKF Diagnostics plc	437	448	-	-	-	885
EL Support Services Limited	500	500	-	-	-	1,000
Gamma Communication plc	95	139	-	-	-	234
Gill Marine Holdings Limited	1,870	2,500	600	4,000	-	8,970
GTK (Holdco) Limited	741	1,127	250	-	-	2,118
Harvey Jones Holdings Limited	442	735	-	223	-	1,400
The Heritage Window Company Holdco Limited	1,468	2,203	-	-	-	3,671
Intamac Systems Limited	905	302	-	2,422	-	3,629
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	627	941	-	-	-	1,568
Mangar Health Limited	1,640	2,460	500	-	-	4,600
Matillion Limited	1,400	2,100	-	-	500	4,000
NB Technology Services Limited	500	500	-	-	-	1,000
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 Ltd	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	1,706	2,558	-	-	-	4,264
Sipsynergy (via Hosted Network Services Ltd)	900	1,350	-	-	500	2,750
TeraView Limited	375	375	-	-	-	750
Traveltek Group Holdings Limited	980	1,470	-	-	1,250	3,700
Wakefield Acoustics (via Malvar Engineering Limited)	720	1,095	-	-	-	1,815

8. Trade and Other Receivables

	2016 €000	2015 €000
Non-current assets:		
Accrued income	837	678
Current assets:		
Trade receivables	449	186
Less: Allowances for credit losses on trade receivables	(133)	-
Prepayments and accrued income	75	182
	391	368
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	-	197
Trade receivable written off	-	(197)
Additions – charged to Statement of Comprehensive Income	133	-
Allowances as at 31 December	133	-

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 2016, there were no trade receivables that were past due but not impaired (2015: 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 €449,000 (2015: £186,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2016 €000	2015 €000
Cash at bank	12,826	15,444
Cash and Cash Equivalents	12,826	15,444

At 31 December 2016 a further €3.04 million (2015: €1.99 million) was also held in fixed term deposit accounts which were due to mature in April 2017. In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year are shown separately as a current asset on the face of the balance sheet.

10. Trade and Other Payables

	2016 €000	2015 €000
Amounts payable within one year:		
Accrued expenses	301	284
	301	284

11. Called-up Share Capital

	2016 Allotted, Called-up and Fully paid £000	2015 Allotted, Called-up and Fully paid £000
Ordinary shares of 10 pence		
Issued: 96,520,060 (2015: 89,390,578) including 2,545,746 shares held in treasury (2015: 2,128,003).	9,652	8,939

The movement in the year was as follows:

		Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2016				89,390,578	8,939
Issue of shares	Fundraising	63.00-64.50	14 January 2016	5,683,709	569
Issue of shares	DRIS	58.05	9 May 2016	763,247	76
Issue of shares	DRIS	56.05	26 September 2016	682,526	68
As at 31 December 2016 (including treasury shares)				96,520,060	9,652

The movement in the year to 31 December 2015 was as follows:

		Price pence	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	57.48	28 September 2015	581,009	58
As at 31 December 2015 (including treasury shares)				89,390,578	8,939

During the year the Company purchased 417,743 (2015: 217,981) 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 2016.

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.

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 £56,109,000 (2015: £54,850,000) and 93,974,314 (2015: 87,262,575) 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 2016.

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 2016 or 31 December 2015. Consequently, basic and diluted net asset values per ordinary share are equivalent in both the year ended 31 December 2016 and 31 December 2015.

13. Total Return per Ordinary Share

The total return per ordinary share is calculated on cumulative dividends paid of 52.5 pence per ordinary share (2015: 48.0 pence per ordinary share) plus the net asset value as calculated per note 12.

14. Financial Commitments

There are no financial commitments at 31 December 2016.

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 2016 he received remuneration of £75,000 from Gamma in respect of his services.

16. Events after the Balance Sheet Date

Subsequent to the year end the Company allotted a total of 6,787,231 ordinary shares on 10 February 2017 pursuant to the offer detailed under "Fundraising" on page 8, raising net proceeds of approximately £4.1 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, and its financial liabilities, primarily accrued expenses, as fair value through profit or loss.

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 and liabilities 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

	2016		2015	
	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	-	39,319	-	36,652
Accrued income	837	-	678	-
Current assets				
Cash and cash equivalents	12,826	-	15,444	-
Cash on fixed term deposit	3,037	-	1,992	-
Trade and other receivables	316	-	186	-
	17,016	39,319	18,300	36,652
Other assets – not financial instruments	75	-	182	-
	17,091	39,319	18,482	36,652

Liabilities as per balance sheet

	2016 Other financial liabilities £000	2015 Other financial liabilities £000
Trade and other payables	(301)	(284)
	(301)	(284)

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, 5 per cent are quoted on AIM (2015: 7 per cent). A 5 per cent increase in stock prices as at 31 December 2016 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £104,000 (2015: £134,000). 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, 95 per cent are in unquoted companies held at fair value (2015: 93 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 £2,990,000 (5.3 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 £2,849,000 (5.1 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 0.5 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in ACC Aviation (via Newacc (2014) Limited) which constitutes 6.2 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 1.8 per cent (2015: 1.7 per cent) of the value of net assets.

Comparison of realised proceeds to unrealised valuations

The table below shows a comparison of the realised proceeds to the unrealised valuations one year prior to sale, for all disposals of unquoted investments over the last five years.

	Date of Disposal	Sale proceeds to date £000	Valuation one year earlier £000	Increase (decrease) £000
Primal Pictures Limited*	Aug-12	1,916	1,008	908
Sirigen Group Limited *	Aug-12	1,962	517	1,445
Digital Healthcare Limited	Aug-13	1,285	1,156	129
Ellfin Home Care Limited	Dec-14	1	-	1
Waterfall Services Limited	Dec-14	964	489	475
Insider Technologies (Holdings) Limited	Oct-15	773	587	186
Callstream Group Limited	Mar-16	752	773	(21)
		7,653	4,530	3,123

* Includes estimated value of deferred consideration on exit

17. Financial Instruments (continued)

Interest Rate Risk

The Company's venture capital investments include £14,527,000 (2015: £14,726,000) of loan stock in unquoted companies. The majority of this loan stock at 31 December 2016 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 £750,000 (2015: £883,000) 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.

The Company has some exposure to interest rates as a result of interest earned on bank deposits. 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. A sensitivity analysis has not been performed as the amounts involved are not considered to be significant.

	2016			2015		
	£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	18,727	9.3	27	19,907	8.8	35
Cash on fixed term deposit	3,037	0.9	3	1,992	1.0	3
Combined	21,764	8.2	24	21,899	8.1	32

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 £36,492,000 (2015: £39,224,000) 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:

	2016 £000				2015 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted loan investments	2,603	2,835	9,089	-	1,822	1,403	11,245	256

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

Included within unquoted loan investments are £548,000 of loans which are past their due date but have been re-negotiated.

An aged analysis of the unquoted loan investments included above, which are past due but not individually impaired, is set out below. For this purpose these loans are considered to be past due when any payment due date under the loan's contractual terms (such as payment of interest) is received late or missed. The full value of the loan is given even though, in some cases, the only default is in respect of interest.

	2016 £000 0-6 months	2015 £000 0-6 months
Loans to investee companies past due	1,225	876

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 22.9 per cent (2015: 28.2 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 2016 was £56.11 million (2015: £54.85 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 10 May 2017 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 2016 be received.
- (2) That the final dividend of 1.5 pence per ordinary share for the year ended 31 December 2016 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 December 2016 be approved other than the part of such report containing the Directors' Remuneration Policy.
- (4) That the Directors' Remuneration Policy contained in the Directors' Remuneration Report for the year ended 31 December 2016 be approved.
- (5) That Mr P C Waller be re-elected as a director.
- (6) That Mr R M Pettigrew be re-elected as a director.
- (7) That Mr R Last be re-elected as a director.
- (8) That BDO LLP be 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.
- (9) 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 £4,000,000, 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 in the Company 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

- (10) 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 9 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 £4,000,000, 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(3) 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 9 above" were omitted.
- (11) That, the Articles of Association of the Company be amended to increase the limit on the aggregate remuneration of the non-executive directors from £75,000 to £100,000 per annum by replacing the figure of "£75,000" appearing in Article 128 with "£100,000".

- (12) That, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company as at the date of the final hearing before the Court at which confirmation of said cancellation is sought, be cancelled.

BY ORDER OF THE BOARD

The City Partnership (UK) Limited

Company Secretary

21 March 2017

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, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF 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) To be valid, any Form of Proxy or other instrument appointing a proxy, must be returned by no later than 12.00 noon on 8 May 2017 through any one of the following methods:
- i) by post, courier or (during normal business hours only) hand to the Company's UK registrar at:
- Capita Asset Services
PXS1
34 Beckenham Road
Beckenham
BR3 4ZF;

- ii) electronically through the website of the Company's UK registrar at www.capitashareportal.com; or
 - iii) in the case of shares held through CREST, via the CREST system (see note (p) below);
- (d) If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
- (e) The return of a completed Form of Proxy, electronic filing or any CREST Proxy Instruction (as described in note (p) below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
- (f) 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, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF. 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 (g) directly below, the proxy appointment will remain valid.
- (g) 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.
- (h) 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.
- (i) 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 close of business on 8 May 2017 or, in the event that the Annual General Meeting is adjourned, on the Register of Members at close of business 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 close of business on 8 May 2017 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.
- (j) As at 21 March 2017, the Company's issued share capital comprised 100,761,545 ordinary shares of 10 pence each with a further 2,545,746 shares held in treasury. Those treasury shares represented 2.5 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 21 March 2017 was 100,761,545. The website referred to above will include information on the number of ordinary shares and voting rights.
- (k) 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.

- (l) 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.
- (m) 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.
- (n) 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.
- (o) 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.
- (p) 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 10 May 2017 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 10 May 2017 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 1.5 pence per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the Directors' Remuneration Policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr P C Waller as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr R M Pettigrew as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Mr R Last as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To appoint BDO LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the directors to allot shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Resolutions			
10. To waive pre-emption rights in respect of the allotment of shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. To amend the Articles of Association of the Company to increase the limit on the aggregate remuneration of the non-executive directors from £75,000 to £100,000 per annum.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. To cancel, subject to the sanction of the High Court, the share premium account.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature _____

Dated _____

2017

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

**To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 10 May 2017 at 12:00 noon**

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 Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF 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 Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF. 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.

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

ADVISERS TO THE COMPANY

Investment Adviser

YFM Private Equity Limited

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

Registrars

Capita Registrars

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Solicitors

Howard Kennedy LLP

1 London Bridge
London
SE1 9BG

Stockbrokers

Panmure Gordon (UK) Limited

One New Change
London
EC4M 9AF

Independent Auditor

BDO LLP

55 Baker Street
London
W1U 7EU

VCT Status Adviser

Philip Hare & Associates LLP

Suite C, First Floor
4-6 Staple Inn
Holborn
London
WC1V 7QH

Bankers

Santander UK plc

44 Merrion Street
Leeds
LS2 8JQ

Company Secretary

The City Partnership (UK) Limited

110 George Street
Edinburgh
EH2 4LH

British Smaller Companies VCT2 plc



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

Telephone 0113 244 1000
Email info@yfmepl.com