

British Smaller Companies VCT2 plc
Annual Financial Report Announcement for
the Year ended 31 December 2016

British Smaller Companies VCT2 plc (“the Company”) today announces its audited results for the year ended 31 December 2016.

Financial Highlights

- An increase in total return of 2.1 per cent of the opening net asset value.
- 2.8 per cent underlying growth in the investment portfolio.
- Total dividends paid in the year of 4.5 pence per ordinary share (2015: 4.5 pence per ordinary share).
- Total cumulative dividends paid since inception of 52.5 pence per ordinary share (2015: 48.0 pence per ordinary share).
- Proposed final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2016.
- Successful fundraising during the year, raising net funds of £3.5 million.

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 the annual report show in greater detail the movement in total return, net asset value and dividends paid over time.

The investments held at 31 December 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

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 of the annual report.

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 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 until the Company’s next Annual General Meeting, 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

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 fund 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 of the annual report.

Other Key Policies

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

Processes and Operations

The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out 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. The charts on page 12 of the annual report show the performance history of these benchmarks.

The evaluation of comparative success of the Company's Total Return is by way of reference to the share price total return for approximately 60 generalist VCTs as published by the Association of investment Companies (the "AIC"). This is the Company's stated benchmark index. A comparison and evaluation of the calculation of this return is shown in the Director's Remuneration Report on page 44 of the annual report.

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

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

Compliance with VCT Legislative Tests

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

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

Income Test

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

Retained Income Test

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

Qualifying Holdings Test

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

Eligible Shares Test

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

For monies raised from 6 April 2011 onwards the eligible shares test above increases to at least 70 per cent of Qualifying Holdings that must be represented by eligible shares. In addition, monies are not permitted to be used to finance buy-outs or otherwise to acquire existing businesses or shares.

There is also an annual limit for each investee company which provides that they may not raise more than £5.0 million of state aid investment (including from VCTs) in the 12 months ending on the date of each investment.

Maximum Single Investment Test

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

The Board can confirm that during the period all of the VCT legislative tests set out above 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.

Investment Performance

Portfolio structure and diversity

Set out on page 15 of the annual report is a profile of the investment portfolio by age, value compared to cost, industry sector and investment instrument.

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.

Investment Review

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.

Your portfolio

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.

Table A

Investment portfolio	£million	%
Unquoted value gain	0.42	40
Quoted 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).

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.

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:

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.

Table C

Disposal of Investments	Net proceeds from sales of investments	Opening value 31 December 2015	Gain on opening value
	£million	£million	£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

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 of the annual report.

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 of the annual report.

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 the annual report 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 of the annual report, which takes account of current industry guidelines for the valuation of venture capital portfolios. Adjustments to fair value are made where an investment is significantly under-performing. As at 31 December 2016 the value of investments falling into each valuation category is shown in Table D below:

	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%

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.

Investment Portfolio Summary at 31 December 2016

Name of company	Date of initial investment	Location	Industry Sector	Current cost	Valuation at 31 December 2016	Proceeds to date	Realised and unrealised value to date*
				£000	£000	£000	£000
Unquoted Portfolio							
ACC Aviation (via Newacc (2014) Limited)	Nov-14	Reigate	Business services	1,379	3,480	-	3,480
Intelligent Office (via IO Outsourcing Limited)	May-14	Alloa	Business services	1,956	2,951	-	2,951
Mangar Health Limited	Jan-14	Powys	Healthcare	1,640	2,486	-	2,486
DisplayPlan Holdings Limited	Jan-12	Baldock	Business services	70	2,015	820	2,835
KeTech Enterprises Limited	Nov-15	Nottingham	Software IT & Telecomms	2,000	2,000	-	2,000
Business Collaborator Limited	Nov-14	Reading	Software IT & Telecomms	1,340	1,743	-	1,743
Springboard Research Holdings Ltd	Oct-14	Bedfordshire	Business services	1,706	1,706	-	1,706
Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & brands	1,870	1,690	-	1,690
GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Ind Services	741	1,675	609	2,284
Immunobiology Limited	Jun-03	Cambridge	Healthcare	2,382	1,486	-	1,486
Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Ind Services	934	1,408	-	1,408
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.

Summary of Investment Portfolio Movement since 31 December 2015

Name of Company	Investment Valuation at 31 December 2015	Disposal Proceeds	Additions including capitalised interest and dividends	Valuation gains including profits / (losses) on disposal	Investment Valuation at 31 December 2016
	£000	£000	£000	£000	£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 Limited	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 Ltd)	-	-	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

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 of the annual report and further information on exposure to risks including those associated with financial instruments is given in note 17a of the annual report.

Loss of Approval as a VCT

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

Mitigation - One of the Key Performance Indicators monitored by the Company is the compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" on page 14 of the annual report.

Economic

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

Mitigation - As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy (summarised on page 10 of the annual report) and a diversified portfolio operating in a range of sectors. The Investment Adviser actively monitors investee performance which provides quality information for monthly reviews of the portfolio.

Investment and Strategic

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

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

Regulatory

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

Mitigation - The Investment Adviser and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on pages 40 and 41 of the annual report.

Reputational

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

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

Operational

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

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

Financial

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

Mitigation - The key controls around financial reporting are described on pages 40 and 41 of the annual report.

Market/Liquidity

Risk – Lack of liquidity in both the venture capital and public markets. Investment in unquoted and AIM quoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM or on the main market does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. 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 on pages 42 to 44 of the annual report.

Directors' Responsibilities Statement

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

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

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

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

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

Website Publication

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

Directors' Responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

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

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

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

For and on behalf of the Board

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

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 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		837	678
		40,156	37,330
Current assets			
Trade and other receivables		391	368
Cash on fixed term deposit		3,037	1,992
Cash and cash equivalents		12,826	15,444
		16,254	17,804
Liabilities			
Current liabilities			
Trade and other payables		(301)	(284)
Net current assets		15,953	17,520
Net assets		56,109	54,850
Shareholders' equity			
Share capital		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	8	59.7p	62.9p

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 21 March 2017.

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

Reserves available for distribution

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

	Capital reserve	Revenue reserve	Total equity
	£000	£000	£000
Distributable reserves as above	15,621	1,242	16,863
<i>Less : Interest and dividends not yet distributable</i>	-	(1,065)	(1,065)
<i>: Cancelled share premium not yet distributable</i>	(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
<hr/>			
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		183	13
Cash placed on fixed term deposit		(1,045)	(1,992)
Net cash outflow from investing activities		(2,496)	(6,760)
<hr/>			
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		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

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost basis as modified by the measurement of investments at fair value through profit or loss.

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in November 2015 (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.

2. Income

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

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

3. Administrative Expenses

	2016	2015
	£000	£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.

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 on page 57 of the annual report;
- 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.
- 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 these fees, 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 of the annual report 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	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£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

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
	Unquoted Investments	Quoted Equity Investments	
	£000	£000	£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.

**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)

8. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted net asset value per ordinary share is calculated on attributable assets of £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.

9. 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 8.

10. Financial Commitments

There were no financial commitments at 31 December 2016.

11. Related Party Transactions

Mr R Last is chairman and non-executive director of Gamma Communications plc, in which he has a 0.06 per cent equity stake. During the year to 31 December 2016 he received remuneration of £75,000 from Gamma in respect of his services.

12. 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 of the annual report, raising net proceeds of £4.1 million.

13. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2016 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at www.hemscott.com/msn/do. They can also shortly be viewed on the Company's website at www.bscfunds.com. Hard copies of the statutory accounts for the year to 31 December 2016 will be distributed by post or electronically to shareholders and will thereafter be available to members of the public from the Company's registered office.

14. Directors

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

15. Annual General Meeting

The Annual General Meeting of the Company will be held at 12.00 noon on 10 May 2017 at 33 St James Square, London, SW1Y 4JS.

16. Final Dividend for the year ended 31 December 2016

Further to the announcement of its final results for the year ended 31 December 2016, the Company confirms that, subject to its approval by shareholders at the forthcoming Annual General Meeting to be held on 10 May 2017, the final dividend of 1.5 pence per ordinary share ("Final Dividend") will be paid on 12 May 2017 to those shareholders on the Company's register at the close of business on 31 March 2017. The ex-dividend date will be 30 March 2017.

17. Dividend Re-investment Scheme

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Final Dividend is the close of business on 18 April 2017.

For further information, please contact:

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