

British Smaller Companies VCT plc

Annual Financial Report Announcement

for the year ended 31 March 2020

British Smaller Companies VCT plc (the “Company”) today announces its audited results for the year ended 31 March 2020.

HIGHLIGHTS

- Total Return at the end of the year of 217.9p per share (2019: 221.7p)
- Offer for Subscription fully subscribed raising £21.3 million
- 6 new investments and follow-on investments totalling £15.0 million
- 4 profitable realisations from unquoted investments in the year
- Net Asset Value (“NAV”) at 31 March 2020 of 64.5p per share (2019: 74.3p)
- Total dividends paid during the year ended 31 March 2020 of 6.0p per share (2019: 11.0p)
- The Board is declaring a first interim dividend of 2.0p per share in respect of the year ending 31 March 2021
- Total cumulative dividends paid since inception of 153.4p per share (2019: 147.4p per share)
- Reinstatement of dividend re-investment scheme and buyback policies which were temporarily suspended on 20 March 2020

CHAIRMAN’S STATEMENT

This Chairman’s Statement is written at a time of unprecedented uncertainty. It is difficult to provide forward looking statements until the fall out from the current pandemic is clear, and we know what the general macro-economic implications are. In the meantime, it is reassuring that the portfolio has remained relatively resilient thus far, due to good levels of funding, low gearing and strong business models, and your Company has good reserves of cash to support existing investee companies where it is in the Company’s best interests to do so.

This year has been a good year for investment disposals which have delivered realised profits of £7.91 million, although as shareholders will expect, the Total Return for the year has been adversely impacted by the coronavirus pandemic which reduced valuations in the final quarter. This resulted in a Total Return of 217.9 pence per ordinary share at 31 March 2020, compared to 221.7 pence per share at 31 March 2019.

During the period under review, your Company made two significant divestments: the sale of Business Collaborator and the partial exit from Eikon, delivering returns of 4.3x and 2.2x respectively and together returning a profit over cost of £9.66 million. Over the year the portfolio’s value reduced by a net £4.10 million (6.9 per cent), largely driven by a reduction of £12.72 million which occurred in the final quarter. This has also been a year with a significant activity on investment with the Company completing £14.98 million of investments of which £13.28 million were new investments and £1.70 million further investments into the portfolio.

Realisations in Year

Realisations and loan repayments generated total proceeds of £20.23 million which delivered a profit over cost of £11.24 million of which £7.91 million was realised in the year. The most significant realisations were:

The sale of the majority of the Company's investment in **Eikon Holdco Limited** in October 2019 generating proceeds of £6.31 million and a profit over cost of £4.06 million, of which £3.92 million was realised in the year. The total return (including income) from this investment was £6.73 million, a multiple of 2.2x cost and a 62 per cent Internal Rate of Return in just 21 months. The Company retains £0.75 million in loan notes and a residual equity stake of 1.5 per cent.

The sale of the Company's investment in **Business Collaborator Limited** in March 2020 generated proceeds of £7.61 million and a profit over cost of £5.60 million, of which £3.95 million was realised in the year. The total return (including income) from this investment was £8.55 million, a multiple of 4.3x cost and an Internal Rate of Return of 33 per cent.

In addition your Company sold part of its investment in **Matillion Limited** in May 2019 generating proceeds of £2.11 million, which is the equivalent of the cost of the original investment made in 2016.

These were very pleasing outcomes and perhaps of particular note is that the returns were generated from investments that had been held for between one and seven years which points to the merits not just of portfolio diversity through scale but also across vintages.

The Company has realised the remainder of its portfolio of AIM investments and other quoted stocks with the portfolio now comprising solely unquoted investments.

New Investments

This has been an active period for investments where your Company completed six new investments and four follow-on investments. The new investments were:

Investment	Sector	£m
Elucidat	E-learning software	2.10
Panintelligence	Business intelligence and analytics software	1.50
SharpCloud	Visualisation software	2.19
Tonkotsu	Ramen restaurants	2.39
Unbiased	Matching services for consumers of financial services	2.94
Wooshii	Disruptive video agency	2.16

Financial Results

The movement in **Total Return**¹ is set out in the table below:

		Pence per ordinary share
Total Return ¹		
Cumulative dividends to 31 March 2019	147.4	
NAV at 31 March 2019	74.3	
Total Return at 31 March 2019		221.7
Net underlying movement in investment portfolio	(3.0)	
Net result after expenses	(0.7)	
Issue/buy-back of shares	(0.1)	
Decrease in Total Return		(3.8)
Total Return at 31 March 2020		217.9p

1. Total Return is defined as an Alternative Performance Measure.

The decrease in Total Return comprised a 3.0 pence per ordinary share net reduction in the value of the investment portfolio and a 0.8 pence per ordinary share reduction from other items.

Interim dividends of 4.0 pence per ordinary share and 2.0 pence per ordinary share in respect of the year ended 31 March 2020 were paid in the period, bringing the cumulative dividends paid to 31 March 2020 to 153.4 pence per ordinary share.

The movements in net asset value (“NAV”) per ordinary share and cumulative dividends paid are set out in the table below:

	Pence per ordinary share	£000
NAV at 31 March 2019	74.3	82,023
Net underlying movement in investment portfolio	(3.0)	(4,104)
Net result after expenses	(0.7)	(987)
Issue/buy-back of shares	(0.1)	20,377
	(3.8)	15,286
Dividends paid	(6.0)	(8,348)
	(9.8)	6,938
NAV at 31 March 2020	64.5	88,961
Cumulative dividends paid	153.4	
Total Return:		
at 31 March 2020	217.9	
at 31 March 2019	221.7	

The charts on page 13 of the annual report show in greater detail the movement in Total Return and net asset value over time.

The investment portfolio, valued at £59.51 million at the start of the financial year, delivered a realised and unrealised net fall of £4.10 million, equivalent to a decrease in value for shareholders of 3.0 pence per ordinary share.

Within the current portfolio there were £1.58 million of valuation gains offset by £13.46 million of downward movements. Matillion was the only business to show a significant increase in value over the year. Whilst other companies in the portfolio were less impacted by the pandemic, their carrying valuations were nonetheless impacted by lower market multiples. Given sharp falls in equity markets in the final quarter of the year, this resulted in reduced valuations for a large number of your Company’s investments even where their operating performance was less impacted by the pandemic. The largest reductions were in those businesses in the hospitality and retail sectors (Tonkotsu, Friska and Frescobol), while Arcus Global needed additional funding and Deep-Secure was unable to maintain its previous level of growth.

Investments made since the VCT rule changes in 2015 comprised £25.83 million (53 per cent of the total value of the portfolio) as at 31 March 2020. Many of these have technology-based business models with a high proportion of recurring annual revenue where the capital is invested in order for the business to scale and achieve critical mass. Consequently your Company’s investments are largely made in equity rather than loan instruments. The newer portfolio, which has an average holding period of 1.8 years since initial investment, is currently valued at £25.83 million (versus a cost of £31.07 million) and the older portfolio, which has an average holding period of 6.5 years is now valued at £22.53 million compared to a cost of £16.83 million.

The income statement continues to reflect the impact of these new funding structures with the balance of return comprising less income and a greater proportion of capital. Income in the year was £1.52 million compared to £2.30 million in the previous year. This trend is set to continue as the proportion of new investments grows, which means that distributions are likely to be more aligned with realised gains in the future.

Shareholder Relations

It is currently the Board's intention to hold the Company's Annual General Meeting at 9:30 am on 10 September 2020 at 33 St James Square, London, SW1Y 4JS and full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 91 of the annual report.

Shareholders are reminded that the ability to attend the meeting will depend on any social distancing legislation in force at the time and this may mean that shareholders are unable to attend. In this situation it would be the Board's intention to provide a dial-in facility for shareholders at the time of the AGM. The Board will keep shareholders up to date on developments through the Company's website and stock exchange announcements.

Currently the Company's Articles of Association provide for physical general and annual general meetings only but the Notice of the Annual General Meeting includes a resolution to allow your Company, at the Board's discretion, to hold such meetings by other means.

Dividends and Reserves

Dividends paid in the year comprise interim dividends of 4.0 and 2.0 pence per ordinary share in respect of the financial year just ended, totalling 6.0 pence per ordinary share. This takes the cumulative dividends paid to 153.4 pence per ordinary share at 31 March 2020.

The Board is pleased to announce the payment of an interim dividend for the year ending 31 March 2021 of 2.0 pence per ordinary share. This will be paid on 31 July 2020 to shareholders on the register at 3 July 2020 and the ex-dividend date is 2 July 2020. The Board is not proposing a final dividend for the year ended 31 March 2020.

Following publication of these accounts reserves available for distribution will be £48.34 million.

Dividend Re-investment Scheme ("DRIS") and Share Buy Back Scheme

Your Company's DRIS and buyback policies were suspended in March due to the severe market disruption and the need to publish a supplementary valuation. Since then there has been more clarity over the restrictions imposed in managing the coronavirus and the Government has provided various measures of support. As a result, whilst there may still be caution over the general economic conditions which sit over the market as a whole, there has been some recovery and stability. The Board has therefore decided to reinstate both schemes effective from 24 June 2020.

For those shareholders who have opted into the DRIS, no action is required if you wish to remain in the scheme. For those wishing to opt in or opt out please visit the Company's website www.bscfunds.com

For the financial year ended 31 March 2020 dividends totalling £1.60 million were invested in your Company by way of the DRIS.

Fundraising

The new share offer launched on 28 November 2018 with British Smaller Companies VCT2 plc closed on 11 February 2019. The related allotment of 28,769,702 new ordinary shares took place on 1 April 2019 following which your Company raised net proceeds of £21.31 million.

Liquidity

Your Company has good liquidity, with cash and readily realisable investments totalling £40.21 million (45.2 per cent of net asset value) at 31 March 2020 which means that the Company will be able to react quickly to new investment opportunities as they arise.

Shareholder Relations

Your Company has had great success with its electronic communications policy and 84 per cent of shareholders now receive communications in this way. Documents such as the annual and interim financial statements are published on the website www.bscfunds.com. This makes them available more quickly than the hard copy versions, helps to save on printing costs and is more environmentally friendly.

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

In light of the developing situation regarding the coronavirus pandemic we have postponed the Investor Workshop originally scheduled for 19 May 2020 until later in the year or in 2021, when it is safe to have large gatherings. We will, of course, issue an invitation to all shareholders at the appropriate time.

Board Evolution

Following Edward Buchan's retirement from the Board two new directors were appointed with the help of a recruitment service. Adam Bastin, who has considerable experience in technology investing, joined the Board on 11 September 2019. On 1 October 2019 Jonathan Cartwright also joined the Board and he has taken up the role of Chairman of the Audit Committee, a post to which he brings considerable expertise. Jonathan has served on the boards of a number of VCTs and investment trusts and has held a number of senior roles in both public and private companies.

Regulatory Developments

Following continuous dialogue with HMRC the VCT industry now has greater clarification around the operation of the new VCT rules introduced in 2015. As a result the majority of investments are now made on the basis of self-assuring their qualifying status, subject to the receipt of professional advice from our Tax Adviser.

This has had a positive impact on investment levels, with new investments of £13.28 million in the year ended 31 March 2020, compared to £4.92 million in the previous year.

Outlook

The coronavirus pandemic has caused untold disruption to corporate activity and consumer behaviour and despite significant levels of government intervention and support it is a massive shock to the global economy. As the lockdown is beginning to ease economic activity is increasing albeit the short term macro-economic outlook is dominated with uncertainty over how the virus will spread under new social distancing guidelines and the damage to companies which has already been caused.

Some of our investments have been less impacted by this economic disruption and many are already well funded with to date only a small need for additional funding and with good liquidity. Your Company is well placed to both support the existing portfolio as well as being able to deploy capital to take advantage of new opportunities.

The past year has seen an increased level of new investment and your Company continues to review new investment opportunities, suggesting that there is currently good demand for growth capital which may well increase as the Government's intervention measures are withdrawn.

The Board wishes to thank existing and new shareholders for making a success of the joint fundraising with British Smaller Companies VCT2 plc which has given your Company the resources to continue building the portfolio and deliver shareholder value.

Helen Sinclair

Chairman

OBJECTIVES AND KEY POLICIES

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

Investment Policy

The Investment policy of the Company is to invest in UK businesses across a broad range of sectors that blends a mix of businesses operating in established and emerging industries that offer opportunities in the application and development of innovation in their products and services.

These investments will all meet the definition of a Qualifying Investment and be primarily in unquoted UK companies. It is anticipated that the majority of these will be high-growth businesses re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments.

The Company seeks to build a diversified portfolio in order to reduce concentration as well as ensuring compliance with the VCT guidelines in this regard.

Borrowing

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

Co-investment

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

Asset mix

Pending investment in VCT-qualifying securities, surplus cash is primarily held in interest bearing instant access, short-notice bank accounts, Money market funds and investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds). 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 most 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 51 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 1 of the annual report. In addition to these the Company's anti-bribery and corruption and environmental and social responsibilities policies can be found on page 37 of the annual report.

PROCESSES AND OPERATIONS

The Manager 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. Post investment the Manager intensively works with the businesses and management teams in which the Company is invested – monitoring progress, effecting change and where applicable redefining strategies with a view to maximising value through structured exit processes.

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 Manager, provided papers have first been circulated to the Chairman of the Investment Committee.

The Board regularly monitors the performance of the portfolio and the investment requirements set by the relevant VCT legislation. Reports are received from the Manager regarding the trading and financial position of each investee company and senior members of the Manager's 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 Manager on a regular basis.

YFM Private Equity Limited has performed investment advisory, management, administrative and secretarial services for the Company since its inception on 28 February 1996. The principal terms of the agreement under which these services are performed are set out in note 3 to the financial statements.

Performance Incentive

At a general meeting of the Company on 7 January 2019 revisions to the incentive agreement between the Company and the Manager were approved by shareholders. The major revisions, effective from 7 January 2019 were:

- the incentive fee will be subject to achieving a target level of Total Return;
- an incentive fee will be payable once a Total Return of at least 228.6 pence per ordinary share has been achieved. This is 12.6 pence per ordinary share higher than the Total Return at 31 March 2018 (216.0 pence per ordinary share) and represented 15.8 per cent of NAV at 31 March 2018;
- there will be an annual increase to the Total Return per ordinary share that must be achieved in order for an incentive fee to be paid. This is the minimum level of dividends required in order to pay an incentive fee under the previous arrangements, which was 4.0 pence per ordinary share (increasing in line with RPI); and
- if the required Total Return is achieved the incentive fee can only be paid if the actual dividends paid exceed the minimum requirement, calculated on the same basis as the previous scheme as set out above.

The minimum requirement is therefore annual dividends of at least 4.0 pence per ordinary share, as increased or decreased by the percentage increase or decrease (if any) in RPI from 1 April 2009. For the year ended 31 March 2020 the requirement is 5.4 pence per ordinary share.

The total dividends paid in the year were 6.0 pence per ordinary share and the Total Return hurdle for the year ended 31 March 2020 was 239.3 pence per ordinary share while the Total Return at 31 March 2020 was 217.9 pence per ordinary share, a shortfall of 21.4 pence per ordinary share. As a result, the Manager has not met the targets for the year under review and no incentive fee has accrued to the Manager (31 March 2019: £nil). If the annual incentive fee exceeds a certain threshold then the excess is deferred until following the next year's Annual General Meeting. Payment of the remainder is made five business days after the relevant Annual General Meeting at which the audited accounts are presented to shareholders.

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

Administration of the Listed Investment Funds Portfolio

Reporting to the Manager, this portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

Administration of the Money Market Funds

Reporting to the Manager, this portfolio is managed by Goldman Sachs on a discretionary basis. The Board receives regular reports on the make-up of this portfolio.

KEY PERFORMANCE INDICATORS

Total Return, calculated by reference to the cumulative dividends paid plus net asset value (excluding tax reliefs received by shareholders), is the primary measure of performance in the VCT industry.

Total Return

The chart on page 13 of the annual report shows how the **Total Return** of your Company has developed over the last ten years.

The evaluation of comparative success of the Company's **Total Return** is by way of reference to the **Share Price Total Return** for approximately 48 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 53 of the annual report.

Total Return with DRIS

The chart on page 13 of the annual report illustrates the **Total Return** (excluding tax reliefs received by shareholders) for investors who subscribed to the first fundraising in 1996 who have re-invested their dividends.

Shareholder Returns

Total Return is defined as an Alternative Performance Measure and the Board considers it to be the primary measure of shareholder value. The table below shows the cumulative dividends, the Total Return on each fundraising round per ordinary share and the Internal Rate of Return (“IRR”) if a shareholder had not opted to participate in the Company’s DRIS. The cumulative dividend, Total Return and IRR figures in this table exclude the benefits of all tax reliefs.

Year of issue	NAV at 31 March 2020	Cumulative dividends paid since fundraising	Total Return to date ¹	Offer price ²	IRR ³
	Pence	Pence	Pence	Pence	%
1996	64.5	153.4	217.9	100.0	4.7%
1997	64.5	150.4	214.9	100.0	4.9%
1998	64.5	146.7	211.2	105.0	4.6%
2005 (C share) ⁴	72.6	133.7	206.3	100.0	6.7%
2006	64.5	123.0	187.5	99.5	7.1%
2007	64.5	118.5	183.0	102.5	7.0%
2008	64.5	113.5	178.0	106.3	6.7%
2010	64.5	103.5	168.0	97.3	9.0%
2011	64.5	97.2	161.7	128.0	4.1%
2012	64.5	74.2	138.7	99.8	5.8%
2013	64.5	69.2	133.7	95.8	6.8%
2014	64.5	62.7	127.2	100.8	5.5%
2015	64.5	54.7	119.2	99.5	5.1%
2016	64.5	44.7	109.2	102.3	2.2%
2017	64.5	22.7	87.2	84.6	1.2%
2019	64.5	6.0	70.5	76.0	-

Notes

1. Total Return to date is cumulative dividends paid plus the 31 March 2020 net asset value in pence per ordinary share.
2. The offer price for the relevant year excluding the benefit of income tax relief available to investors at the time of the offer.
3. IRR is the unaudited annual rate of return that equates the offer price at the date of the original investment with the value of subsequent dividends plus the 31 March 2020 net asset value per ordinary share. This excludes the benefit of any initial tax relief.
4. All figures have been adjusted for conversion of C shares into ordinary shares in May 2007.

Expenses

Ongoing Charges

The Ongoing Charges figure, as calculated in line with the AIC recommended methodology, is an Alternative Performance Measure used by the Board to monitor expenses. This figure shows shareholders the costs of the recurring operational expenses expressed as a percentage of the average net asset value. Whilst based on historical information this provides an indication of the likely level of costs that will be incurred in managing the Company in the future.

	Year to 31 March 2020 (%)	Year to 31 March 2019 (%)
Ongoing Charges figure	2.16	2.54

The level of ongoing charges has fallen in the year due to the increased level of net assets and the agreement with the Manager to pay a lower level of management fee of 1 per cent on surplus cash.

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 72 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 Manager. 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 (80 per cent for accounting periods commencing after 5 April 2019).

For shares issued in accounting periods beginning on or after 6 April 2018, at least 30 per cent of those share issues must be invested in Qualifying Holdings of investee companies by the anniversary of the accounting period in which those shares are issued.

Eligible Shares Test

At least 70 per cent of the Company's Qualifying Holdings must be represented throughout the period by holdings of non-preferential shares.

Investments made before 6 April 2018 from funds raised before 6 April 2011 are excluded from this requirement.

At least 10 per cent of the Company's total investment in each Qualifying Investment must be in eligible shares.

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

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

Maximum Single Investment Test

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

The Board can confirm that during the period all of the VCT legislative tests set out above have been met, where required.

Further restrictions placed on VCTs are:

Dividends from cancelled share premium

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

Cancelled share premium of £9.78 million remains undistributable until on or after 1 April 2020.

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

Wherever possible the Company self-assures that an investment is a qualifying investment, subject to the receipt of professional advice.

INVESTMENT PERFORMANCE

Portfolio Structure

The charts on page 17 of the annual report illustrate the broad range of the investment portfolio with 67 per cent of the portfolio valuation being held for more than 3 years, whilst 65 per cent is held at cost or above. 33 per cent of the portfolio's valuation is held in loans and preference shares although loans now account for only 17 per cent of the value.

Portfolio Diversity

Also included in the charts on page 18 of the annual report is a profile of the portfolio by industry sector and the breakdown of the portfolio between investments made before and after the VCT rule changes in 2015.

INVESTMENT REVIEW

Proceeds from realising investments totalled £20.23 million delivering a profit over cost of £11.24 million of which £7.91 million was recognised in the year. £14.98 million was invested in the portfolio, but the year-end valuations bore the impact of the emerging coronavirus pandemic.

Your Portfolio

£48.4 million	Fair value of the portfolio	(2019: £57.0 million)
16	Number of portfolio companies with value of £1.0 million or more	(2019: 17)
£1.3 million	Income from the portfolio	(2019: £2.1 million)
£15.0 million	Level of investment	(2019: £5.7 million)

Disposal of Investments

During the year to 31 March 2020 the Company received proceeds from disposals, repayments of loans/preference shares and deferred consideration of £20.23 million. The total value gain on disposal of investments was £7.91 million above the 31 March 2019 valuations as set out in Table A below. This included the very successful realisations of Eikon and Business Collaborator which delivered exit multiples on original cost of 2.2x and 4.3x respectively and, including income, produced combined realised gains of £11.02 million.

The realisation of Eikon produced capital proceeds of £6.31 million against a pro-rata cost of investment of £2.25 million delivering a realised gain of £4.06 million of which £3.92 million was recognised in the year. The investment in Eikon was held at a valuation of £2.39 million at the beginning of the financial year and £5.75 million at 30 September 2019 following the offer for your Company's investment.

The realisation of Business Collaborator produced capital proceeds of £7.61 million against cost of £2.01 million delivering a realised gain of £5.60 million of which £3.95 million was recognised in the year. The investment in Business Collaborator was held at a valuation of £3.66 million at the beginning of the financial year and £4.27 million at 30 September 2019.

The case study on page 24 of the annual report gives some insight into the value created from the investment in Business Collaborator Limited.

Table A Disposal of investments	Net proceeds from sale of investments £million	Opening value 31 March 2019 £million	Gain on opening value £million
Unquoted investments	18.05	10.17	7.88
Quoted investments	1.69	1.68	0.01
Sale of portfolio investments	19.74	11.85	7.89
Deferred proceeds received	0.49	0.47	0.02
Total investment disposals	20.23	12.32	7.91

The quoted portfolio delivered proceeds of £1.69 million with a profit on cost of £0.71 million.

Further analysis of all investments sold in the year can be found in note 7 to the financial statements.

Investments

During the year ended 31 March 2020 the Company completed 10 investments totalling £14.98 million comprising six new investments of £13.28 million and four follow-on investments of £1.70 million.

The analysis of these investments is shown in Table B below. The case study on page 25 of the annual report gives more information on the investment into Unbiased EC1 Limited.

Table B		Investments made £million		
Date	Company	New	Follow-on	Total
May-19	Elucidat Ltd	2.10	-	2.10
May-19	Wooshii Limited	2.16	-	2.16
May-19	Arcus Global Limited	-	1.12	1.12
Jun-19	Tonkotsu Limited	2.39	-	2.39
Oct-19	SharpCloud Software Limited	2.19	-	2.19
Oct-19/Feb-20	Ncam Technologies Limited	-	0.22	0.22
Nov-19	Panintelligence (via Paninsight Limited)	1.50	-	1.50
Dec-19	Unbiased EC1 Limited	2.94	-	2.94
Dec-19	Traveltek Group Holdings Limited	-	0.06	0.06
Feb-20	Friska Limited	-	0.30	0.30
	Invested in the year	13.28	1.70	14.98
	Capitalised income			0.09
	Total additions in the year			15.07

Up until 31 December 2019 the portfolio had delivered a strong performance, with an increase in value of £8.62 million of which £3.96 million had been realised in the year. However, in the final quarter of the year the coronavirus pandemic caused some benchmark equity indices to fall by as much as 29 per cent, which led to substantial value reductions in some portfolio companies through lower sales multiples, or PE ratios in addition to specific one-off impacts.

The net result of this was a decrease in value over the year of £4.10 million as set out in the table below.

The investments in the leisure, retail and hospitality sectors showed the biggest reductions. The casual dining and food-to-go businesses, Tonkotsu and Friska, have seen the largest reductions, with Frescobol suffering from a large fall in sales in its retail markets. Biz2Mobile's valuation has fallen as a result of lower revenue growth. It is a similar situation at Deep-Secure, although momentum has now started to return. Arcus saw a major refinancing in the year which led to a reduction in the value of the initial investment. Positively, ACC Aviation saw only a modest fall in its valuation, partly due to its high level of cash.

In the year a gain of £7.89 million arose from the realisation of portfolio investments, including £7.87 million from the disposal of Business Collaborator and the partial disposal of Eikon.

Table C	
Investment Portfolio	£million
Portfolio value loss	(11.88)
Gain on disposal over opening value (see Table A)	7.89
	(3.99)
Gain from deferred proceeds	0.02
Total portfolio loss	(3.97)
Loss in value of other investments	(0.13)
Total investment portfolio loss	(4.10)

Portfolio Composition

As at 31 March 2020 the portfolio had a value of £48.36 million. An analysis of the movements in the year is shown in note 7.

The portfolio remains well diversified, comprising a total of 30 investments of which 16 have a value equal to or greater than £1.0 million (31 March 2019: 17), with the single largest investment representing 8.5 per cent of the net asset value.

There is also diversification across sectors. Software, IT and Communications comprise 50 per cent, (including software products and SaaS of 24 per cent); Business Services comprise 42 per cent (including travel of 8 per cent); Retail and Brands comprise 4 per cent and Manufacturing and Industrial comprise 3 per cent.

The immediate impact on the retail businesses, Tonkotsu, Friska and Frescobol has been the most significant with all three closing for a period. Tonkotsu and Friska are both involved in food retailing and have opened takeaway services and as restrictions on movement are gradually lifted they will begin to rebuild their trades. Frescobol as a clothing retailer has both wholesale and on-line channels on which it can build future growth.

The most significant business by value in the travel sector is ACC Aviation, which whilst impacted has no leverage and significant cash reserves that are not being denuded. Unlike airline operators who carry significant asset exposure, ACC is a specialist advisor/broker and makes money by solving complex problems for the operators, as created by lockdown, changing flight patterns and restructuring of aircraft fleets.

The Company's liquidity makes it well placed to meet the funding requirements of the portfolio; although since the year end these needs have been minimal with £0.13 million invested to date.

The charts on pages 17 and 18 of the annual report show the composition of the portfolio as at 31 March 2020 by industry sector, age of investment, investment instrument and the valuation compared to cost.

As at 31 March 2020 62 per cent (2019: 72 per cent) of the portfolio was held at a value above cost; 3 per cent (2019: 3 per cent) was held at cost and 35 per cent (2019: 25 per cent) below cost.

At 31 March 2020 the portfolio was valued at £48.36 million, representing 54.4 per cent of net assets (69.5 per cent at 31 March 2019).

Cash (including fixed term deposits) and other investments (listed investment funds and money market funds detailed below) at 31 March 2020 totalled £40.21 million representing 45.2 per cent of net assets (28.6 per cent at 31 March 2019).

Under the revised VCT legislation it is no longer possible to deposit funds for longer than seven days which means that cash deposits must be held effectively in instant access accounts and there seems little prospect of this rule being relaxed. The Board continually reviews opportunities to generate a higher level of income, without significantly changing the risk profile of the funds held.

To this end, in 2019 the Board decided to invest in a small portfolio of listed investment funds and a further £2.43 million was invested in the year to 31 March 2020. At 31 March 2020 this portfolio was valued at £4.79 million, or 5.4 per cent of net assets (3.0 per cent at 31 March 2019). In addition, the Company has also invested £2.50 million into Goldman Sachs' GS Sterling Liquid Reserves Fund and at 31 March 2020 this portfolio was valued at £2.50 million, or 2.8 per cent of net assets.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1 on pages 67 and 68 of the annual report, which takes account of current industry guidelines for the valuation of venture capital portfolios. The December 2018 update to the IPEVC Guidelines discourages the use of cost or price of a recent investment as a primary basis for valuation. As a result our policy is to use the recent round basis for the first quarter date immediately following the round, but then switch to a new primary basis for all subsequent periods. This change has in fact had little impact on the portfolio's valuation as we have calibrated the valuation basis used to the recent investment round. We would only expect significant adjustments to recent investment values where an investment is significantly under- or over-performing. In addition to the December 2018 update of the Guidelines, the Company has followed the IPEVC's Special Valuation Guidance issued in March 2020 in response to the impact of the coronavirus pandemic.

As at 31 March 2020 the value of investments falling into each valuation category is shown in Table D below.

Table D Valuation policy	2020		2019 % of portfolio by value
	Valuation £million	% of portfolio by value	
Sales multiple	25.97	54	24
Earnings multiple	19.95	41	42
Net assets, reviewed for change in fair value	2.16	5	4
Cost or price of recent investment, reviewed for change in fair value	0.17	-	23
Discounted cash flows from investment	0.11	-	4
Quoted investments at bid price	-	-	3
Total	48.36	100.0	100.0

Regulatory Changes

As noted by the Chairman above, the VCT industry is now more comfortable self-assuring new investments, subject to professional advice, and we believe that the ability to do this has had a positive impact on the level of investment in the year.

Impact

The Company's aim is to invest in smaller UK businesses to help them grow with the primary objective of delivering strong financial returns. However, your Company and the Manager are increasingly mindful of the impact, both positive and negative, that our activities and those of the businesses in the portfolio have not just on the environment, but also their employees, communities and society at large.

Your Company believes that its investment activities have many positive benefits beyond the returns we deliver for shareholders. In the vast majority of cases the investments in the Company's portfolio help fund growth, create new employment, develop new technologies and products, improve productivity, help grow UK exports and lead to increased tax revenues, all of which contribute to the UK economy and have benefit to those employed in those businesses and their supply chains.

However, as a responsible investor, your Company has been seeking to do more in this area and to this end during the financial year your Company has been looking at ways in which it can improve the impact of its activities and help its portfolio companies do the same.

This has resulted in your Company along with the Manager introducing the following:

- An assessment of the positive and negative impact the portfolio companies invested in have on the environment, people and society is now carried out pre-investment during the investment appraisal process; and
- A structured framework to regularly assess the positive and negative impacts that the portfolio has on the environment, people and society. The Manager is committed to pro-actively working with portfolio companies on an ongoing basis to put Impact on their agenda and help improve their performance in these areas, through the introduction of specific initiatives and sharing of best practice across the portfolio.

This approach has only recently been implemented, but it has already resulted in many of our portfolio companies committing to projects or to making changes to their businesses to improve their Impact in a variety of areas. Examples of some of these activities include:

- Commitments to monitor and reduce energy usage and transportation;
- Projects to reduce raw material usage or re-design products to make them more environmentally sustainable;
- Projects to reduce waste and encourage re-use and recycling;
- Encouragement of charitable activities and volunteering across their organisations and partnering with charities;
- Initiatives to work with local schools and other educational establishments to help mentor and provide work experience and career guidance to students;
- Initiatives to improve staff welfare such as addressing mental health in the workplace; increase staff engagement, and enhance staff pay and conditions; and
- Investment in staff training and development.

Summary and Outlook

Many businesses in the portfolio have, along with the rest of the country, had to quickly adapt to changing trading conditions, which they have done including adapting products, accelerating product development and launching new services. This flexible and innovative approach is to be encouraged and supported. We have continued to invest in our team, with five new recruits in the past 12 months, three of whom commenced post lockdown on 23 March 2020.

Last year's investment level was the highest since the new rules came into force and whilst the first quarter of the new financial year has undoubtedly produced more challenging logistics we and the potential pipeline of new opportunities have adapted. It is possible that as the year unfolds there are likely to be increased funding needs for many UK businesses and your Company has the resources to take advantage of the investment opportunities as they arise.

David Hall

YFM Private Equity Limited

Portfolio Summary at 31 March 2020

Name of company	Date of initial investment	Location	Industry Sector	Current cost	Valuation at 31 March 2020	Proceeds to date	Realised & unrealised value to date*
				£000	£000	£000	£000
ACC Aviation Group Limited	Nov-14	Reigate	Business Services	220	7,521	1,848	9,369
Matillion Limited	Nov-16	Manchester	Software, IT & Telecommunications	2,046	7,015	2,105	9,120
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	2,934	4,066	-	4,066
Unbiased EC1 Limited	Dec-19	London	Business Services	2,946	3,033	-	3,033
Deep-Secure Ltd	Dec-09	Malvern	Software, IT & Telecommunications	1,000	2,599	-	2,599
KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecommunications	1,500	2,197	500	2,697
Elucidat Ltd	May-19	Brighton	Software, IT & Telecommunications	2,100	2,148	-	2,148
Wooshii Limited	May-19	London	Business Services	2,160	2,065	-	2,065
Springboard Research Holdings Limited	Oct-14	Milton Keynes	Business Services	2,824	1,877	-	1,877
Arcus Global Limited	May-18	Cambridge	Software, IT & Telecommunications	2,925	1,662	-	1,662
Ncam Technologies Limited	Mar-18	London	Software, IT & Telecommunications	2,120	1,610	-	1,610
SharpCloud Software Limited	Oct-19	London	Software, IT & Telecommunications	2,190	1,539	-	1,539
Panitelligence (via Paninsight Limited)	Nov-19	Leeds	Software, IT & Telecommunications	1,500	1,500	-	1,500
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Eastleigh	Software, IT & Telecommunications	1,770	1,319	-	1,319
DisplayPlan Holdings Limited	Jan-12	Baldock	Business Services	130	1,175	1,521	2,696
Tonkotsu Limited	Jun-19	London	Retail & Brands	2,388	1,105	-	1,105
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software, IT & Telecommunications	1,716	870	-	870
Friska Limited	Jul-17	Bristol	Retail & Brands	2,100	798	-	798
Other investments £0.75 million and below				13,328	4,259	9,795	14,054
Total investments				47,897	48,358	15,769	64,127
Full disposals since 31 March 2002				48,240	-	102,296	102,296
Full disposals prior to 31 March 2002				5,748	-	1,899	1,899
Total portfolio				101,885	48,358	119,964	168,322

* represents proceeds received to date plus the unrealised valuation at 31 March 2020.

Summary of Portfolio Movement since 31 March 2019

Name of Company	Investment Valuation at 31 March 2019	Disposal proceeds	Additions including capitalised income	Valuation gains including profits / (losses) on disposal	Investment valuation at 31 March 2020
	£000	£000	£000	£000	£000
Unquoted portfolio					
Eikon Holdco Limited	3,142	(6,314)	-	3,731	559
Matillion Limited	8,233	(2,105)	-	887	7,015
Traveltek Group Holdings Limited	415	-	57	398	870
Unbiased EC1 Limited	-	-	2,946	87	3,033
Elucidat Ltd	-	-	2,100	48	2,148
Panintelligence (via Paninsight Limited)	-	-	1,500	-	1,500
Ncam Technologies Limited	1,479	-	218	(87)	1,610
Wooshii Limited	-	-	2,160	(95)	2,065
Sipsynergy (via Hosted Network Services Limited)	1,504	-	-	(185)	1,319
Other investments £0.75 million and below	225	-	-	(225)	-
Bizz2Mobile Limited	1,060	-	-	(451)	609
SharpCloud Software Limited	-	-	2,190	(651)	1,539
Arcus Global Limited	1,691	-	1,125	(1,154)	1,662
Friska Limited	1,743	-	300	(1,245)	798
Tonkotsu Limited	-	-	2,388	(1,283)	1,105
Frescobol Carioca Limited	1,800	-	-	(1,800)	-
Investments made after November 2015	21,292	(8,419)	14,984	(2,025)	25,832
Business Collaborator Limited	3,662	(7,611)	-	3,949	-
DisplayPlan Holdings Limited	1,136	-	-	39	1,175
Leengate Holdings Limited	1,936	(1,936)	-	-	-
KeTech Enterprises Limited	2,231	-	-	(34)	2,197
Springboard Research Holdings Limited	2,162	-	89	(374)	1,877
RMS Group Holdings Limited	823	-	-	(393)	430
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	4,531	-	-	(465)	4,066
ACC Aviation Group Limited	8,160	-	-	(639)	7,521
Wakefield Acoustics (via Malvar Engineering Limited)	1,160	-	-	(940)	220
Other investments £0.75 million and below	4,031	(88)	-	(1,502)	2,441
Deep-Secure Ltd	4,217	-	-	(1,618)	2,599
Investments made prior to November 2015	34,049	(9,635)	89	(1,977)	22,526
Total unquoted investments	55,341	(18,054)	15,073	(4,002)	48,358
Total quoted investments	1,678	(1,690)	-	12	-
Total investments	57,019	(19,744)	15,073	(3,990)	48,358

RISK FACTORS

The Board carries out a regular review of the risk environment in which the Company operates. The emerging and principal risks and uncertainties identified by the Board and techniques used to mitigate these risks are set out in this section. The occurrence of the coronavirus pandemic has created heightened uncertainty but has not changed the nature of the principal risks. The Board considers that the present process for mitigating these risks remain appropriate.

The Board seeks to mitigate its emerging and 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 4: "Audit, Risk & Internal Control" of the UK Corporate Governance Code issued by the Financial Reporting Council in July 2018. Details of the Company's internal controls are contained in the Corporate Governance Internal Control section on pages 49 and 50 of the annual report 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" above.

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 in the section on Objectives and Key Policies) and a diversified portfolio operating in a range of sectors. The Manager actively monitors investee performance which provides quality information for monthly reviews of the portfolio. The Manager ensures that the portfolio has plans to mitigate the impact of economic risk.

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 Manager 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. 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 Manager 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 49 and 50 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 Manager 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 by the Manager, have been agreed between the Manager and the Company. Advice is sought from external advisors where required. Both the Company and the Manager maintain appropriate insurances.

Operational

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

Mitigation - The Manager has a documented business continuity plan, which provides for back-up services in the event of a system breakdown. The Manager's systems are protected against viruses and other cyber-attacks.

Financial

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

Mitigation - The Company's internal control and risk management processes are described on pages 49 and 50 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 Manager and on a quarterly basis by the Board.

OTHER MATTERS

Section 172 Statement

This section sets out your Company's Section 172 Statement and should be read in conjunction with the other contents of the Strategic Report on pages 5 to 37 of the annual report.

Section 172 of the Companies Act 2006 requires a director to promote the success of the company. In doing this they must act in the way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- > the likely consequences of any decision in the long term;
- > the interests of the company's employees;
- > the need to foster the company's business relationships with suppliers, customers and others;
- > the impact of the company's operations on the community and the environment;
- > the desirability of the company maintaining a reputation for high standards of business conduct; and
- > the need to act fairly as between members of the company.

The Company takes a number of steps to understand the views of investors and other key stakeholders and considers these, along with the matters set out above, in Board discussions and decision making.

Key stakeholders

Investors

The Board engages and communicates with shareholders by various means. The Company encourages shareholders to attend its Annual General Meeting and, along with British Smaller Companies VCT2 plc, holds an annual Investor Workshop, which is attended by around 200 shareholders. Additionally, the Manager carries out regular shareholder surveys.

The directors' decisions are intended to achieve the Company's objective to maximise Total Return and provide investors with an attractive long-term tax-free dividend yield. Maintaining the Company's status as a VCT is a critical element of this, especially as investors are required to hold any newly-acquired shares for at least five years in order to retain their initial tax relief.

On 1 April 2019, as set out under the heading "Fundraising" above, the Company raised a substantial amount of new funds and in the light of this the Board decided there was no need for a further fundraising in the 2019/20 tax year.

In order to further diversify the Company's liquid holdings the Board decided to invest a further £2.4 million into its portfolio of listed investment funds and £2.5 million was also placed into a Money market fund.

Dividends

In order to provide shareholders with a level of income the Board decided to pay an interim dividend of 4.0 pence per ordinary share on 12 June 2019. Following the gain on the disposal of the investment in Eikon Holdco Limited (see below) it was decided that a further interim dividend of 2.0 pence per ordinary share would be paid on 20 March 2020.

Dividend Re-investment Scheme (DRIS) and share buybacks

As a result of the uncertainty and disruption caused to public markets by the coronavirus pandemic, the Board felt that it was appropriate to suspend the Company's share buyback policy and its DRIS with effect from 20 March 2020.

Manager

The Company's most important business relationship is with the Manager. There is regular contact with the Manager and members of the Manager's board attend all of the Company's Board meetings. There is also an annual strategy meeting with the Manager and British Smaller Companies VCT2 plc.

Portfolio Companies

The Company holds minority investments in its portfolio companies and it has appointed the Manager to manage the portfolio. While the Board has little direct contact with the portfolio the Manager provides updates on the entire portfolio at least quarterly.

The Company also completed the exit of its AIM portfolio and there were three major disposals in the year; Business Collaborator Limited, Eikon Holdco Limited and Leengate Holdings Limited. Leengate had been held since 2013 and was purchased by its management team. An unsolicited offer was received for Eikon and, while the intention had been to hold the investment for longer, it was felt that the opportunity to make a partial realisation, while retaining an interest in the business, was the best outcome for all stakeholders. After a formal sale process a very strong offer was received for the investment in Business Collaborator and the realisation completed in March 2020 after a very short period of exclusivity.

During the year there was also a further funding round at Matillion and, given the value implied by new investors, it was felt appropriate to realise enough proceeds to recover the cost of the original investment.

Employees and directors

The Company has no employees. As a result of Edward Buchan's decision to retire from the Board at last year's Annual General Meeting the Board undertook a recruitment process which led to the appointment of Jonathan Cartwright and Adam Bastin as directors. Two new directors were recruited because it was felt that they brought new and complementary skills to the Board. For a review of the policies used when appointing directors to the Board of the Company please refer to the Directors' Remuneration Report in the annual report.

Environment and Community

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the Manager, YFM Private Equity Limited, who 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 Manager designed to minimise its and the Company's impact on the environment include recycling and reducing energy consumption. More details of the work that the Manager has done in this area are set out above and at www.yfmep.com/who-we-are/our_impact/.

Business Conduct

The Company has a zero-tolerance approach to bribery and corruption.

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 Manager 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;
- > the Company has communicated its anti-bribery policy to the Manager and its other service providers and, in turn, the Manager ensures that portfolio companies implement appropriate policies of their own; and
- > the Manager has its own Anti-Bribery and Anti-Slavery policies and ensures that portfolio companies adopt a similar policy.

Helen Sinclair

Chairman

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Notes	2020			2019		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on disposal of investments	7	-	7,913	7,913	-	4,286	4,286
(Losses) gains on investments held at fair value	7	-	(12,017)	(12,017)	-	2,258	2,258
		-	(4,104)	(4,104)	-	6,544	6,544
Income	2	1,517	-	1,517	2,202	97	2,299
Total income (expense)		1,517	(4,104)	(2,587)	2,202	6,641	8,843
Administrative expenses:							
Manager's fee		(430)	(1,288)	(1,718)	(428)	(1,286)	(1,714)
Other expenses		(786)	-	(786)	(680)	(44)	(724)
	3	(1,216)	(1,288)	(2,504)	(1,108)	(1,330)	(2,438)
Profit (loss) before taxation		301	(5,392)	(5,091)	1,094	5,311	6,405
Taxation	4	-	-	-	(72)	72	-
Profit (loss) for the year		301	(5,392)	(5,091)	1,022	5,383	6,405
Total comprehensive income (expense) for the year		301	(5,392)	(5,091)	1,022	5,383	6,405
Basic and diluted earnings (loss) per ordinary share	6	0.22p	(3.86p)	(3.64p)	0.94p	4.94p	5.88p

The notes on pages 66 to 90 of the annual report 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' (issued in October 2019 – "SORP") published by the AIC.

BALANCE SHEET

At 31 March 2020

	Notes	2020 £000	2019 £000
Assets			
Non-current assets at fair value through profit or loss			
Investments	7	48,358	57,019
Listed investment funds	7	4,789	2,494
Financial assets at fair value through profit or loss	7	53,147	59,513
Accrued income and other assets		367	656
		53,514	60,169
Current assets			
Accrued income and other assets		229	1,023
Current asset investments		9,471	6,970
Cash and cash equivalents		25,952	14,030
		35,652	22,023
Liabilities			
Current liabilities			
Trade and other payables		(205)	(169)
Net current assets		35,447	21,854
Net assets		88,961	82,023
Shareholders' equity			
Share capital		14,950	11,833
Share premium account		22,838	2,868
Capital reserve		49,624	49,556
Investment holding gains and losses reserve		375	15,250
Revenue reserve		1,174	2,516
Total shareholders' equity		88,961	82,023
Net asset value per ordinary share	8	64.5p	74.3p

The notes on pages 66 to 90 of the annual report are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 24 June 2020.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Share capital	Share premium account	Capital reserve	Investment holding gains and losses reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	11,342	-	53,422	18,146	3,227	86,137
<i>Revenue return for the year</i>	-	-	-	-	1,094	1,094
<i>Capital return for the year</i>	-	-	(1,233)	-	-	(1,233)
<i>Gain on investments held at fair value</i>	-	-	-	2,258	-	2,258
<i>Gain on disposal of investments in the year</i>	-	-	4,286	-	-	4,286
<i>Taxation</i>	-	-	72	-	(72)	-
Total comprehensive income for the year	-	-	3,125	2,258	1,022	6,405
<i>Issue of shares – DRIS</i>	491	2,900	-	-	-	3,391
<i>Issue costs – DRIS</i>	-	(32)	-	-	-	(32)
<i>Unclaimed dividends</i>	-	-	6	-	-	6
<i>Purchase of own shares</i>	-	-	(2,009)	-	-	(2,009)
<i>Dividends</i>	-	-	(10,142)	-	(1,733)	(11,875)
Total transactions with owners	491	2,868	(12,145)	-	(1,733)	(10,519)
Realisation of prior year investment holding gains	-	-	5,154	(5,154)	-	-
Balance at 31 March 2019	11,833	2,868	49,556	15,250	2,516	82,023
<i>Revenue return for the year</i>	-	-	-	-	301	301
<i>Capital expenses for the year</i>	-	-	(1,288)	-	-	(1,288)
<i>Loss on investments held at fair value</i>	-	-	-	(12,017)	-	(12,017)
<i>Gain on disposal of investments in the year</i>	-	-	7,913	-	-	7,913
Total comprehensive income (expense) for the year	-	-	6,625	(12,017)	301	(5,091)
<i>Issue of share capital</i>	2,877	19,338	-	-	-	22,215
<i>Issue of shares – DRIS</i>	240	1,357	-	-	-	1,597
<i>Issue costs</i>	-	(725)	(207)	-	-	(932)
<i>Purchase of own shares</i>	-	-	(2,503)	-	-	(2,503)
<i>Dividends</i>	-	-	(6,705)	-	(1,643)	(8,348)
Total transactions with owners	3,117	19,970	(9,415)	-	(1,643)	12,029
Realisation of prior year investment holding gains	-	-	2,858	(2,858)	-	-
Balance at 31 March 2020	14,950	22,838	49,624	375	1,174	88,961

The notes on pages 66 to 90 of the annual report are an integral part of these financial statements.

Reserves available for distribution

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

	Capital reserve	Revenue reserve	Total
	£000	£000	£000
Distributable reserves as above	49,624	1,174	50,798
<i>Less : Income not yet distributable</i>	-	(968)	(968)
<i>: Cancelled share premium not yet distributable (see below)</i>	(9,779)	-	(9,779)
Reserves available for distribution¹	39,845	206	40,051

1. Subject to filing these financial statements at Companies House.

The capital reserve and revenue reserve are both distributable reserves. The reserves total £50,798,000 representing a decrease of £1,274,000 during the year. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £50,798,000 shown above, £968,000 relates to income not yet distributable and £9,779,000 relates to share premium which became distributable from 1 April 2020 onwards (see below).

Total share premium cancelled will be available for distribution from the following dates.

	£000
1 April 2020 – now distributable	8,288
1 April 2021	1,491
Cancelled share premium not yet distributable at 31 March 2020	9,779

STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Net cash outflow from operating activities		(427)	(204)
Cash flows from (used in) investing activities			
Cash maturing from fixed term deposit		-	2,031
Purchase of financial assets at fair value through profit or loss	7	(17,413)	(6,126)
Proceeds from sale of financial assets at fair value through profit or loss	7	19,744	17,471
Deferred consideration	7	490	1,374
Net cash inflow from investing activities		2,821	14,750
Cash flows from (used in) financing activities			
Issue of ordinary shares		22,215	-
Costs of ordinary share issues*		(932)	(32)
Purchase of own ordinary shares		(2,503)	(2,009)
Dividends paid	5	(6,751)	(8,532)
Net cash inflow (outflow) from financing activities		12,029	(10,573)
Net increase in cash and cash equivalents		14,423	3,973
Cash and cash equivalents at the beginning of the year		14,030	10,057
Cash and cash equivalents at the end of the year		28,453	14,030

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

Cash and cash equivalents comprise

Money market funds	2,501	-
Cash at bank	25,952	14,030
Cash and cash equivalents at the end of the year	28,453	14,030

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

	2020 £000	2019 £000
(Loss) profit before taxation	(5,091)	6,405
Increase (decrease) in trade and other payables	36	(514)
Decrease in trade and other receivables	613	635
Gains on disposal of investments	(7,913)	(4,286)
Losses (gains) on investments held at fair value	12,017	(2,258)
Capitalised income	(89)	(186)
Net cash outflow from operating activities	(427)	(204)

The notes on pages 66 to 90 of the annual report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

The accounts have been prepared on a going concern basis as set out in the director's report on page 39 of the annual report and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (issued in October 2019 – "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.

The Company has carried out an assessment of accounting standards, amendments and interpretations that have been issued by the IASB and that are effective for the current reporting period. The Company has determined that the transitional effects of the standards do not have a material impact. In particular as the Company does not have any leases there is no impact from the adoption of IFRS 16.

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 ("FVPL") 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. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and IFRS 11 'Joint arrangements' which give exemptions from equity accounting for venture capital organisations.

Under IFRS 10 "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, using the International Private Equity and Venture Capital (“IPEVC”) Valuation Guidelines (“the Guidelines”) issued in December 2018 and updated in March 2020. Quoted investments are valued at market bid prices. A detailed explanation of the valuation policies of the Company is included below.

Initial measurement

The best estimate of the initial fair value of an unquoted investment is the cost of the investment. Unless there are indications that this is inappropriate, an unquoted investment will be held at this value within the first three months of investment.

Subsequent measurement

Based on the Guidelines we have identified 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

> **sales multiples.** An appropriate multiple, given the risk profile and sales growth prospects of the underlying company, is applied to the revenue of the 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 used to derive the multiple.

> **earnings multiple.** An appropriate multiple, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of the 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 used to derive the multiple.

> **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.

> **price of recent investment.** This may represent the most appropriate basis where a significant amount of new investment has been made by an independent third party. This is adjusted, if necessary, for factors relevant to the background of the specific investment such as preference rights and will be benchmarked against other valuation techniques. In line with the Guidelines the price of recent investment will usually only be used for the initial period following the round and after this an alternative basis will be found.

Due to the significant subjectivity involved, discounted cash flows 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.

One of the valuation methods described above is used to derive the gross attributable enterprise value of the company after which adjustments are then made to reflect the specific circumstances, such as the impact of the coronavirus pandemic. This value is then apportioned appropriately to reflect the respective debt and equity instruments in the event of a sale at that level at the reporting date.

Quoted Investments and Listed Investment Funds

Quoted investments and listed investment funds 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. No methodology other than active market bid price has been applied as at 31 March 2020.

Income

Dividends and interest are received from financial assets measured at fair value through profit and loss and are recognised on the same basis in the Statement of Comprehensive Income. This includes interest and preference dividends rolled up and/or payable at redemption. Interest income is also received on cash, cash equivalents and cash deposits. Dividend income from unquoted equity shares is recognised at the time when the right to the income is established.

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for the Manager's fee and incentive fees. Of the Manager'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. This is reassessed annually to ensure that the allocation remains appropriate. The incentive fee payable to the Manager (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, Cash Equivalents and Current Asset Investments

Cash at bank comprises cash at hand and bank deposits repayable on up to three months' notice.

Current asset investments comprise Money market funds and balances held in fixed term deposits which mature after three months.

Cash and cash equivalents include cash at hand, Money market funds and bank deposits repayable on up to three months' notice as these meet 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 which mature after three months are not classified as cash and cash equivalents, 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 Statement of Comprehensive Income, 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 Manager. The capital cash flows relating to the 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 Reserve

The following are included within this reserve:

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

Investment Holding Gains and 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.

Revenue Reserve

This reserve includes all revenue income from investments along with any costs associated with the running of the Company – less 75 per cent of the Manager's 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 in the annual report.

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.

The Board uses its judgement to select the appropriate method for determining the fair value of investments through profit or loss.

2. Income

	2020	2019
	£000	£000
Dividends from unquoted companies	450	697
Dividends from AIM quoted companies	12	117
Interest on loans to unquoted companies	681	1,235
Income from portfolio	1,143	2,049
Dividends from listed investment funds	70	61
Interest from listed investment funds	44	11
Fixed interest Government securities	-	3
Income from investments held at fair value through profit or loss	1,257	2,124
Interest on bank deposits	260	175
	1,517	2,299

3. Administrative Expenses

	2020	2019
	£000	£000
Manager's fee	1,718	1,714
Administration fee	66	64
Total payable to YFM Private Equity Limited	1,784	1,778
Other expenses:		
General expenses	91	125
Directors' remuneration	108	99
Trail commission paid to financial intermediaries	114	88
Listing and registrar fees	53	47
Auditor's remuneration (excluding irrecoverable VAT):		
- audit of the statutory financial statements	33	29
- other services	-	9
Irrecoverable VAT	32	28
Printing	30	39
	2,245	2,242
Fair value movement related to credit risk	259	196
	2,504	2,438
Ongoing charges figure	2.16%	2.54%

Directors' remuneration comprises only short-term benefits including social security contributions of £8,000 (2019: £8,000).

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

No fees are payable to the auditor in respect of other services (2019: £nil) apart from those shown above.

YFM Private Equity Limited provides Investment Advisory services to the Company under an Administrative and Investment Advisory agreement (IAA) dated 28 February 1996 as varied by agreements dated 1 July 2009, 16 November 2012, 17 October 2014, 24 August 2015 and 18 November 2019. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by YFM Private Equity Limited terminating the contract as at the date of this Report.

Under an Investment Agreement dated 18 November 2019 YFM Private Equity Limited was appointed as the Company's Alternative Fund Manager. As a result the Company was de-registered by the Financial Conduct Authority as a Small Registered Alternative Investment Fund Manager on 24 March 2020 and responsibility for the custody of the Company's investments passed to YFM Private Equity Limited on that date.

The key features of the IAA are:

- YFM Private Equity Limited receives a Manager's fee, calculated at half-yearly intervals as at 31 March and 30 September, at the rate of 2.0 per cent of gross assets less current liabilities. The fee is allocated between capital and revenue as described in note 1. The fee is payable quarterly in advance.
- With effect from 1 April 2019 the annual fee payable to the Manager is 1.0 per cent on all surplus cash, defined as all cash above £15 million, unless an incentive fee has been paid under the new agreement in which case the amount determined to be surplus will be the excess over £7.5 million. The annual fee on all other assets will be 2.0 per cent of net assets per annum. Based on the Company's net assets at 31 March 2020 of £88,961,000 and cash of £32,922,000 at that date, this equates to £1,600,000 per annum.
- Under the IAA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £35,000 per annum (at 28 February 1996) plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £66,000 for the year ended 31 March 2020 (2019: £64,000); and
- YFM Private Equity Limited shall bear the annual operating costs of the Company (including the fees 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 payable to financial intermediaries) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company. The excess expenses during the year payable to the Company from YFM Private Equity Limited amounted to £nil (2019: £nil).

When the Company makes investments into its unquoted portfolio the Manager charges that investee an advisory fee or arrangement fee, calculated by applying a percentage to the investment amount. The Company and the Manager have agreed that, if the average of the relevant fees during the Company's financial year exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on holdings this excess will be rebated to the Company. As at 31 March 2020, the Company was due a rebate from the Manager of £nil (2019: £nil).

The total remuneration payable to YFM Private Equity Limited under the IAA in the period was £1,784,000 (2019: £1,778,000).

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

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 March 2020 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £972,000 (2019: £734,000).

At a general meeting of the Company on 7 January 2019 revisions to the incentive agreement between the Company and the Manager were approved by shareholders. The major revisions, effective from 7 January 2019 were:

- the incentive fee will be subject to achieving a target level of Total Return;
- an incentive fee will be payable once a Total Return of at least 228.6 pence per ordinary share has been achieved. This is 12.6 pence per ordinary share higher than the Total Return at 31 March 2018 (216.0 pence per ordinary share) and represented 15.8 per cent of NAV at 31 March 2018;
- there will be an annual increase to the Total Return per ordinary share that must be achieved in order for an incentive fee to be paid. This is the minimum level of dividends required in order to pay an incentive fee under the previous arrangements, which was 4.0 pence per ordinary share (increasing in line with RPI); and
- if the required Total Return is achieved the incentive fee can only be paid if the actual dividends paid exceed the minimum requirement, calculated on the same basis as the previous scheme as set out above.

The minimum requirement is therefore annual dividends of at least 4.0 pence per ordinary share, as increased or decreased by the percentage increase or decrease (if any) in RPI from 1 April 2009. For the year ended 31 March 2020 the requirement is 5.4 pence per ordinary share.

The total dividends paid in the year are 6.0 pence per ordinary share and the Total Return hurdle for the year ended 31 March 2020 was 239.3 pence per ordinary share while the Total Return at 30 March 2020 was 217.9 pence per ordinary share, a shortfall of 21.4 pence per ordinary share and as a result, the Manager has not met the targets for the year under review and no performance fee has accrued to the Manager (31 March 2019: £nil). If the annual incentive fee exceeds a certain threshold then the excess is deferred until following the next year's Annual General Meeting. Payment of the remainder is made five business days after the relevant Annual General Meeting at which the audited accounts are presented to shareholders.

The amount of the incentive payment paid to the Manager for any one year shall, when taken with all other relevant costs, ensure that the Total Expenses Ratio is no greater than 5 per cent of the net asset value at the end of the financial year (as adjusted for all realised gains that have been distributed during that year). Any unpaid incentive payment will be carried over to subsequent financial years and be included in the calculation of the Total Expenses Ratio. The maximum fee payable in any 12-month period cannot exceed an amount which would represent 25 per cent or more of the net asset value or market capitalisation of the Company.

There are also provisions for a compensatory fee in circumstances where the Company is taken over or the Incentive Agreement is terminated, which is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following its termination. In this instance 80 per cent is payable in the first accounting period after such an event, 55 per cent in the second, 35 per cent in the third and nothing is payable thereafter.

Under the terms of the offer launched with British Smaller Companies VCT2 plc on 28 November 2018, YFM Private Equity Limited was entitled to 4.5 per cent of gross subscriptions from execution brokers and 2.5 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £701,000.

The Manager 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 51 of the annual report under the heading "Directors' Remuneration for the year ended 31 March 2020 (audited)".

4. Taxation

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Profit (loss) before taxation	301	(5,392)	(5,091)	1,094	5,311	6,405
Profit (loss) before taxation multiplied by standard rate of corporation tax in UK of 19% (2019: 19%)	57	(1,024)	(967)	208	1,009	1,217
Effect of:						
UK dividends received	(94)	-	(94)	(136)	-	(136)
Non-taxable profits on investments	-	780	780	-	(1,261)	(1,261)
Deferred tax not recognised	37	244	281	-	180	180
Tax charge (credit)	-	-	-	72	(72)	-

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

Deferred tax assets of £2,274,000 (2019: £1,784,000) calculated at 19% in respect of unrelieved management expenses of £11.97 million as at 31 March 2020 (2019: £10.49 million at 17%) 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 March:

	2020			2019		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Interim dividend for the year ended 31 March 2020 of 4.0p (2019: 4.0p) per ordinary share	-	5,565	5,565	940	3,388	4,328
Special interim dividend for the year ended 31 March 2020 of 2.0p per ordinary share (2019: 7.0p)	1,140	1,643	2,783	793	6,754	7,547
	1,140	7,208	8,348	1,733	10,142	11,875
Shares allotted under DRIS			(1,597)			(3,391)
Unclaimed dividends			-			48
Dividends paid in Statement of Cash Flows			6,751			8,532

The interim dividend of 4.0 pence per ordinary share was paid on 12 June 2019 to shareholders on the register as at 10 May 2019.

The special interim dividend of 2.0 pence per ordinary share was paid on 20 March 2020 to shareholders on the register as at 21 February 2020.

An interim dividend of 2.0 pence per ordinary share in respect of the year ending 31 March 2021 has been announced. This dividend has not been recognised in the year ended 31 March 2020 as the obligation did not exist at the balance sheet date.

During previous years the Company had received amounts from the Registrars in respect of unclaimed dividends and had made efforts to contact the relevant shareholders. The unclaimed balance of £48,000 was subsequently returned to the Registrars during 2018.

6. Basic and Diluted (Loss) Earnings per Ordinary Share

The basic and diluted (loss) earnings per ordinary share is based on the loss after tax attributable to shareholders of £5,091,000 (2019: profit of £6,405,000) and 139,675,725 (2019: 108,988,846) 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 £301,000 (2019: £1,022,000) and 139,675,725 (2019: 108,988,846) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted capital (loss) earnings per ordinary share is based on the capital loss for the year attributable to shareholders of £5,392,000 (2019: profit of £5,383,000) and 139,675,725 (2019: 108,988,846) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 28,769,702 new ordinary shares from the fundraising, and 2,397,364 new ordinary shares in respect of its DRIS.

The Company has also repurchased 3,617,817 of its own shares in the year, and these shares are held in the Capital Reserve. The total of 11,592,990 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

The Company has no potentially dilutive shares and hence the basic and diluted earnings per ordinary share are equivalent for both of the years ended 31 March 2020 and 31 March 2019.

7. Financial Assets at Fair Value through Profit or Loss

IFRS13 and IFRS7, in respect of financial instruments that are measured in the balance sheet at fair value, require 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 listed investment funds, 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 or sales 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 March 2020 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments	Level 1 Quoted Equity Investments	Total Quoted and Unquoted	Level 1 Listed Investment Funds	Total Investments
	£000	£000	£000	£000	£000
Opening cost	40,834	984	41,818	2,445	44,263
Opening investment holding gain	14,507	694	15,201	49	15,250
Opening fair value at 1 April 2019	55,341	1,678	57,019	2,494	59,513
Additions at cost	14,984	-	14,984	2,429	17,413
Capitalised income	89	-	89	-	89
Disposal proceeds	(18,054)	(1,690)	(19,744)	-	(19,744)
Net profit on disposal*	7,881	12	7,893	-	7,893
Change in fair value	(11,883)	-	(11,883)	(134)	(12,017)
Closing fair value at 31 March 2020	48,358	-	48,358	4,789	53,147
Closing cost	47,897	-	47,897	4,875	52,772
Closing investment holding gain (loss)	461	-	461	(86)	375
Closing fair value at 31 March 2020	48,358	-	48,358	4,789	53,147

*The net profit on disposal in the table above is £7,893,000 whereas that shown in the Statement of Comprehensive Income is £7,913,000. The difference comprises the change in the value of deferred proceeds totalling £20,000 in respect of assets which have been disposed of and are not included within the investment portfolio at 1 April 2019.

The following disposals and loan repayments took place in the year:

	Net proceeds from sale	Cost	Opening carrying value as at 1 April 2019	Profit (loss) on disposal
	£000	£000	£000	£000
<i>Unquoted investments:</i>				
Business Collaborator Limited	7,611	2,010	3,662	3,949
Eikon Holdco Limited	6,314	2,250	2,392	3,922
Harris Hill Holdings Limited	73	105	58	15
Leengate Holdings Limited	1,936	1,074	1,936	-
The Heritage Windows (Holdco) Limited	-	615	-	-
Hutchinson Networks Limited	-	1,320	-	-
Matillion Limited	2,105	620	2,121	(16)
Seven Technologies Holdings Limited	15	15	4	11
Total from unquoted investments	18,054	8,009	10,173	7,881
<i>Quoted investments:</i>				
EKF Diagnostics Holdings plc	370	241	371	(1)
Mattioli Woods plc	603	111	647	(44)
Renalytix plc	144	97	108	36
Volex plc	573	535	552	21
Total from quoted investments	1,690	984	1,678	12
<i>Deferred proceeds:</i>				
Selima Holding Company Ltd	490	-	470	20
Total from quoted and unquoted investments	20,234	8,993	12,321	7,913

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 £88,961,000 (2019: £82,023,000) and 137,907,047 (2019: 110,357,798) 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 March 2020.

The Company has no potentially dilutive shares and hence the basic and diluted net asset values per ordinary share are the same.

9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 153.4 pence per ordinary share (2019: 147.4 pence per ordinary share) plus the net asset value as calculated per note 8.

10. Financial Commitments

There are no financial commitments at 31 March 2020 or 31 March 2019.

11. Events after the Balance Sheet Date

There have been no significant events since 31 March 2020.

12. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 March 2020 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>. 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 March 2020 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.

13. Directors

The directors of the Company are Ms H Sinclair, Mr R Cook, Mr A C N Bastin and Mr J H Cartwright.

14. Annual General Meeting

The Annual General Meeting of the Company will be held at 9:30 am on 10 September 2020 at 33 St James Square, London, SW1Y 4JS.

15. Interim dividend for the year ending 31 March 2021

The directors are pleased to announce the payment of an interim dividend for the year ending 31 March 2021 of 2.0 pence per ordinary share ("Interim Dividend").

The Interim Dividend will be paid on 31 July 2020 to those shareholders on the Company's register at the close of business on 3 July 2020. The ex-dividend date will be 2 July 2020.

The directors are not proposing a final dividend for the year ended 31 March 2020.

16. 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 Interim Dividend is the close of business on 17 July 2020.

17. Inside Information

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

For further information, please contact:

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