

British Smaller Companies VCT plc Annual Financial Report Announcement for the year ended 31 March 2023

British Smaller Companies VCT plc (the “Company”) today announces its audited results for the year ended 31 March 2023.

HIGHLIGHTS

- 7.6 per cent return on opening net assets, driven by positive realisations and strong underlying revenue growth in portfolio companies.
- Realisations generated total proceeds of £20.7 million in the year, a gain of £5.2 million over the opening carrying value and £6.1 million over cost.
- Total dividends paid during the year ended 31 March 2023 of 8.5 pence per share (2022: 9.0 pence per share), bringing total cumulative dividends paid since inception to 174.9 pence per ordinary share at 31 March 2023 (2022: 166.4 pence per ordinary share).
- Total Return increased by 6.5 pence to 258.6 pence per share.
- Net asset value at 31 March 2023 of 83.7 pence per share (2022: 85.7 pence per share).
- Seven new investments and nine follow-on investments totalling £28.9 million completed during the year. One follow-on investment of £0.8 million made subsequent to the year end.
- £44.3 million raised in fully subscribed 2022/23 offer, with shares allotted on 4 April 2023.
- The Board is declaring an interim dividend of 2.0 pence per share in respect of the year ending 31 March 2024. The dividend will be paid on 28 July 2023 to shareholders on the register on 30 June 2023.

Chairman’s Statement

It gives me great pleasure to set out my first Chairman’s Statement for British Smaller Companies VCT plc (“BSC” or “the Company”), having been appointed as Chair at the Company’s AGM in September. I thank my predecessor, Helen Sinclair, for her exemplary service to the Company over 14 years, both as a director and Chair.

The Company delivered a robust performance in a demanding economic landscape. In the year to 31 March 2023, the Company generated a 7.6 per cent total return on its opening Net Asset Value, compared to a 12.0 per cent fall in the FTSE Small Cap and a 6.7 per cent fall in the AIC’s index of generalist VCTs’ share price total return. AIC data ranks the Company first across all generalist VCTs when considering a blended average performance ranking over 1, 3, 5 and 10 years.

One notable factor driving this performance was the number of realisations achieved by the Company in the year, with four portfolio companies sold, all at significant uplifts from their opening valuations at the start of the year.

A second factor has been the good level of revenue growth seen within the portfolio, particularly amongst the ten largest investments, which has helped to offset decreases in valuation multiples as the share prices of publicly listed comparable companies have reduced.

Financial Performance

In 2023, the Company delivered a 6.5 pence per ordinary share increase in Total Return which, as noted above, is equivalent to 7.6 per cent of the opening net asset value at 31 March 2022. Total Return is now 258.6 pence per ordinary share.

The portfolio drove the positive performance, which generated a return of £14.2 million, 14.0 per cent over its opening value; £5.3 million of the return was from realised investments and £8.9 million from unrealised investments. New and follow-on investments totalling £28.4 million were completed.

The Company's portfolio of externally managed investments in listed investment funds, which makes up a small part of the Company's treasury operations, saw its valuation fall by £0.8 million in the year; £0.5 million was invested into this portfolio over the course of the year.

Realisations in the Year

Realisations of investments generated total proceeds of £20.7 million, a gain of £5.2 million over the opening carrying value and £6.1 million over the original cost. There were four significant realisations in the year: Springboard and Intelligent Office in September 2022, the partial realisation of Vuealta in December 2022 and Wakefield Acoustics in January 2023.

The realisation of Springboard generated proceeds of £8.7 million, representing a capital profit over cost of £5.9 million, an uplift of 30.7 per cent or £2.0 million on the carrying value at the beginning of the year. Including income, the total return from this investment is £9.9 million over a near eight year holding period, producing an internal rate of return of 23 per cent and a multiple of 4.1x cost. There is the prospect of further consideration based on performance targets; however, no value has been recognised relating to these potential payments at this time.

The sale of Intelligent Office generated proceeds of £6.1 million, representing a capital profit over cost of £3.2 million and an uplift of 21.1 per cent, or £1.1 million, on the carrying value at the beginning of the year. Including income, the total return from this investment was £7.6 million over an eight and a half year holding period, producing an internal rate of return of 14 per cent and a multiple of 2.6x cost.

In December 2022, the Company completed the partial exit of its investment in leading planning and forecasting software and services business, Vuealta, through the sale of its fast-growing software division to long-standing partner, Anaplan. The sale generated proceeds of £4.6 million, 1.5x cost, and an uplift of 45.5 per cent or £1.4 million on the carrying value at the beginning of the year (including further investments made in the financial year prior to sale). The Company remains invested in the core Vuealta consulting business to support its next phase of growth.

The Company realised its investment in Wakefield Acoustics in January 2023, generating proceeds of £1.0 million and an overall return of 1.5x cost. This was a pleasing result, given the investment was valued at £nil at the beginning of the financial year, emphasising the Company's commitment to portfolio companies at all stages through their growth journey.

In addition, two investments, Arraco and Seven, which had previously been fully provided for, were unable to recover any value and were subsequently realised during the year.

New Investments

The Company invested £28.4 million in the year into the portfolio. Seven new investments were made in the year, totalling £14.5 million. In our continued support of the portfolio, nine companies received follow-on funding in the year, totalling £13.9 million in aggregate. The new investments are:

Investment	Sector
AutomatePro	SaaS platform providing test-automation tools for ServiceNow
Biorelate	Medical data curation
DrDoctor	Patient engagement and communications software platform
Plandek	DevOps analytics platform
Quality Clouds	Quality control technology for low code software solutions
Summize	Contract lifecycle management software
Xapien	Automated background research software

Financial Results

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

	Pence per ordinary share	£000
NAV at 31 March 2022	85.7	159,534
Increase in value	4.3	8,152
Gain on disposal of investments	2.8	5,213
Net underlying change in investment portfolio	7.1	13,365
Net operating costs	(0.5)	(1,003)
Incentive fee	(0.1)	(125)
Total Return in period	6.5	12,237
Issue/buy-back of new shares	-	1,145
NAV before the payment of dividends	92.2	172,916
Dividends paid	(8.5)	(15,884)
NAV at 31 March 2023	83.7	157,032
Cumulative dividends paid	174.9	
Total Return:		
at 31 March 2023	258.6	
at 31 March 2022	252.1	

The charts on page 11 of the annual report show the movement in Total Return and Net Asset Value over time in greater detail.

The portfolio investments held at the beginning of the financial year, amounting to £101.2 million, delivered a return over the year of £14.2 million. The listed investments held saw a value fall of £0.8 million.

The current portfolio’s net valuation increased by £8.9 million. Within this there were valuation gains of £15.8 million, offset by £6.9 million of downward movements.

As anticipated by the impact of the changes to VCT regulations in 2015, the composition of the portfolio continues to evolve towards younger, higher growth companies which are reinvesting earnings for further growth. This, along with the ongoing realisation of earlier, more income-focused investments, results in the reduction of the Company’s ongoing income. However, helped by the receipt of an ordinary dividend of £0.7 million from Displayplan and the benefit of higher interest rates on cash and money market balances held, income in the year was £2.0 million, compared to £1.1 million in the previous financial year. The trend of lower ongoing income from the portfolio is expected to continue as the proportion of new investments continues to grow, although this may be offset by higher interest on cash and money market deposits, at least in the short term.

Dividends

Dividends paid in the year totalled 8.5 pence per ordinary share. These comprised interim dividends of 4.0 pence per ordinary share; and a special dividend of 4.5 pence per ordinary share following the realisations of Springboard and Intelligent Office. Cumulative dividends paid as at 31 March 2023 were 174.9 pence per ordinary share.

An interim dividend for the year ending 31 March 2024 of 2.0 pence per ordinary share will be paid on 28 July 2023, to shareholders on the register at 30 June 2023.

Dividend Re-investment Scheme (“DRIS”)

The Company operates a DRIS, which gives shareholders the opportunity to re-invest any cash dividends received; it is open to all shareholders, including those who invested under the recent offers. The main advantages of the DRIS are:

- 1 the dividends remain tax free; and
- 2 any DRIS investment attracts income tax relief at the rate of 30 per cent.

For the financial year ended 31 March 2023, £3.7 million was re-invested by way of the DRIS, from overall dividends paid of £15.9 million.

Liquidity and Fundraising

At 31 March 2023, the Company’s cash and money market reserves of £28.3 million represented 18.0 per cent of net assets; this excludes net proceeds of £44.3 million from the Company’s 2022/23 fundraise, for which the associated shares were allotted in April 2023, as noted below.

Share Premium Cancellation

Following shareholder approval at the Annual General Meeting in October 2022, the Company cancelled the balance of its Share Premium, £63.6 million. This was transferred to the Company’s Capital Reserve, and provides greater flexibility to continue to pay regular dividends to shareholders and facilitates the continued periodic offer to buy back shares from shareholders. As set out on page 63 of the annual report, this will become available for distribution at various times over financial periods to 1 April 2026.

Board Changes

Purvi Sapre joined the Board on 6 June 2022. Purvi has over 15 years investment experience in the UK and international markets investing on behalf of debt, equity and investment funds.

As noted above, Helen Sinclair retired as Chairman and a director of the Board at the Company’s AGM on 16 September 2022.

Annual General Meeting

The Annual General Meeting of the Company will be held at 9:30 am on 14 September 2023 at 8-10 Hill Street, London W1J 5NG. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 92 of the annual report.

Shareholder Relations

The 2022/23 shareholder workshop was well attended. Attendees heard from economist and author Paul Collier; Ben Hookway, CEO of Relative Insight, one of the Company’s recent investments; and Matthew Scullion of Matillion.

We also hosted an event by video platform on 1 December 2022, which included presentations from Karen Barrett, CEO of Unbiased, and Sarim Khan, CEO of SharpCloud.

The next in-person shareholder workshop will be held jointly with British Smaller Companies VCT2 plc on 20 June 2023 at 1 Great George Street, Westminster, London SW1P 3AA.

The electronic communications policy continues to be a success, with 83 per cent of shareholders now receiving communications in this way. Documents such as the annual report are published on the website www.bscfunds.com rather than by post, saving on printing costs, as well as being more environmentally friendly.

The Company’s website, www.bscfunds.com, is refreshed on a regular basis and provides a comprehensive level of information in what I hope is a user-friendly format.

Post Balance Sheet Events

On 4 April 2023 the Company allotted shares from its fully subscribed 2022/23 share offer. £44.3 million was raised by the Company, resulting in the allotment of 53,559,905 ordinary shares. This increased the number of ordinary shares issued with voting rights to 241,239,184.

Following the year end, one investment of £0.8 million has been completed into Relative Insight, and the Company realised its investment in Ncam, in line with the valuation at 31 March 2023, with initial proceeds of £1.4 million being received.

Outlook

Inflation remains stubbornly high, and is therefore continuing to pull up interest rates. It remains a challenging economic environment, and valuation multiples are therefore likely to remain somewhat depressed in the near-term. I am pleased to see the portfolio's continued resilience and promising levels of underlying growth rates, and believe that many portfolio companies will be stronger for the experience of weathering the economic conditions of the past 12 months.

My fellow board members and I are grateful for the support for the Company shown by new and existing shareholders in the recent fundraising. We look forward to updating you on progress deploying the funds into exciting and innovative areas of the UK economy across the forthcoming year.

Rupert Cook
Chairman
16 June 2023

Objectives and Key Policies

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

Investment Policy

The investment strategy of the Company is to 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 businesses will be re-investing their profits for growth and the investments will comprise mainly equity investments.

The Company seeks to build a broad portfolio of investments in early stage companies focussed on growth with the aim of spreading the maturity profiles and maximising return as well as ensuring compliance with the VCT guidelines.

Borrowing

The Company does not borrow and has no borrowing facilities, choosing to fund investments from its own resources.

Co-investment

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc (together "the VCTs") typically co-invest in investments, allocating such investments 60 per cent to the Company and 40 per cent to British Smaller Companies VCT2 plc. However, the Board of the Company has discretion as to whether or not to take up its allocation; where British Smaller Companies VCT2 plc does not take its allocation, the Board may opt to increase the Company's allocation in such opportunities.

The VCTs may invest alongside co-investment funds managed by YFM, the Manager of the VCTs. The VCTs have first choice on the initial £4.5 million of all equity investment opportunities meeting the VCT qualifying criteria. Amounts above £4.5 million are allocated two thirds to the VCTs and one third to YFM's co-investment funds.

Asset Mix

Cash which is pending investment in VCT-qualifying securities is 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).

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom are non-executive, can be found on page 49 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, details of the Company's anti-bribery and environmental and social responsibilities policies can be found on page 35 of the annual report.

Processes and Operations

The Manager is responsible for the sourcing and screening of investment opportunities, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments.

Post investment, the Manager works intensively 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 values through structured exit processes.

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 regularly attend the Company's Board meetings. Monitoring reports on compliance with VCT regulations are also received at each Board meeting so that the Board can monitor that the Venture Capital Trust status of the Company is maintained and take corrective action if appropriate. Monitoring reports carrying out an independent review of this compliance are received twice a year.

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.

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 nature falling within the Company's investment policies.

Administration of the Listed Investment Funds Quoted Portfolio

The Company holds a small portfolio of listed investment funds, the purpose of which is to optimise returns from liquid assets while preserving capital value. 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.

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 (as at 31 March)

The chart on page 11 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 an index of generalist VCTs that are members of the AIC (based on figures provided by Morningstar). 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 51 of the annual report.

Total Return with Dividend Re-Investment Scheme (as at 31 March)

The chart on page 11 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

The Board considers Total Return to be the primary measure of shareholder value. The IRR returns from the offers over the last ten years are set out on page 12 of the annual report. IRR is the annual rate of return that equates the cost at the date of the original investment, with the value of subsequent dividends plus the audited 31 March 2023 Net Asset Value per share. This excludes the benefit of any initial tax relief.

The IRRs shown are based on fundraisings and offer prices during the relevant calendar year whilst the graph referred to below shows specific financial periods to 31 March 2023.

Annualised return p.a. over 10, 5, 3, 2 and 1 year periods (to 31 March 2023)

Set out on page 12 of the annual report is the annualised return over 10, 5, 3, 2 and 1 years to 31 March 2023. The annualised return is calculated with reference to the cumulative dividends paid in the period plus the audited NAV at 31 March 2023, compared to the NAV at the beginning of the relevant period.

Expenses

Ongoing Charges

The Ongoing Charges figure, as calculated in line with the AIC recommended methodology, is used by the Board to monitor expenses. This figure shows shareholders the costs of the Company’s 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 2023 (%)	Year to 31 March 2022 (%)
Ongoing Charges figure*	2.12	2.02

* Alternative Performance Measure

The level of ongoing charges has averaged 2.08 per cent over the last 3 years. Shareholders benefit from the Company’s agreement with the Manager to pay a lower level of management fee of 1 per cent on surplus cash. The Company’s ongoing charges ratio is one of the lowest in the VCT industry.

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

Compliance with VCT Legislative Tests

A principal risk facing the Company is the retention of its VCT qualifying status. The Board receives regular reports on compliance with the VCT legislative tests from the Manager. In addition, the Board receives formal reports from its VCT Tax Adviser (Philip Hare & Associates LLP) 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 further 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 Investments Test

At least 80 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in Qualifying Investments of investee companies.

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 Investments 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 Investments 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.

Investment Limits

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

There is also a lifetime limit that a business may not raise more than £12 million of state aided investment (including from VCTs); the limit for Knowledge Intensive Companies is £20 million.

Maximum Single Investment Test

The value of any one investment must not, at any time in the period, represent more than 15 per cent of the Company's total investment value. This is calculated at the time of investment and updated should there be further additions; as such, it 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.

Following shareholder approval at the 2022 Annual General Meeting, in October 2022 the Company cancelled the balance of its Share Premium, £63.6 million, of which £22.8 million is now distributable. The remaining £40.8 million will become distributable over the period to 1 April 2026, as set out on page 63 of the annual report.

Other

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.

Portfolio Structure and Analysis

Portfolio Structure

The broad range of the portfolio is illustrated on page 15 of the annual report, with 40 per cent of the portfolio valuation being held for more than five years, whilst 91 per cent is held at cost or above. 7 per cent of the portfolio value is held in loans and preference shares, and loans now account for only 3 per cent of the value.

Portfolio Analysis

Also included on page 16 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 change in 2015.

Investment Review

The movements in the investment portfolio are set out in Table A below:

Table A
Investment Portfolio

	Portfolio £million	Listed Investment Funds £million	Total £million
Opening fair value at 1 April 2022	101.2	4.6	105.8
Additions	28.4	0.5	28.9
Disposal proceeds	(20.4)	(0.3)	(20.7)
Valuation movement	14.2	(0.8)	13.4
Closing fair value at 31 March 2023	123.4	4.0	127.4

At 31 March 2023 the portfolio was valued at £123.4 million, representing 78.6 per cent of net assets (63.4 per cent at 31 March 2022). The listed investment funds were valued at £4.0 million, representing 2.6 per cent of net assets (2.9 per cent at 31 March 2022). Cash, cash equivalents and current asset investments at 31 March 2023 of £28.3 million represented 18.0 per cent of net assets (33.5 per cent at 31 March 2022).

The Portfolio

£123.4 million	Fair value of the portfolio	(2022: £101.2 million)
27	Number of portfolio companies with a value of more than £1.0 million	(2022: 23)
£1.4 million	Income from the portfolio	(2022: £0.9 million)
£28.4 million	Level of investment	(2022: £9.8 million)
£14.2 million	Return from the portfolio	(2022: £30.5 million)

The portfolio showed robust performance in the period, adding £14.2 million of value on the opening fair value of £101.2 million. The composition of investments continues to show its dynamism, with £28.4 million invested in the period and cash proceeds of £20.4 million received.

Fair value changes

Table B
Gain from Investment Portfolio

	£million	%
Gain in fair value from the portfolio	8.9	63
Gain on disposal over opening value from the portfolio	5.3	37
Gain arising from the portfolio	14.2	100
Fall in value of listed investment funds	(0.8)	
Gain arising from the investment portfolio	13.4	

Of the £14.2 million gain in the year, £5.3 million arose from investments which were realised, including Springboard (£2.0 million), Vuealta (partial realisation £1.4 million), Intelligent Office (£1.1 million) and Wakefield Acoustics (£1.0 million). Further details can be found in the Chairman's Statement and note 7 to the financial statements.

The ongoing portfolio delivered a net value gain of £8.9 million in the year. It is pleasing to see the fair value increases arising across a range of companies, including tech-focused businesses such as Vuealta, Outpost, Unbiased and Wooshii, as well as legacy companies such as Displayplan and ACC.

Some decreases in value have been seen. The Company's largest investment, Matillion, saw its valuation decrease, driven by lower valuation multiples of comparable public companies; although the effect of this has been partly offset by the company's continued strong revenue growth and movements in exchange rates over the year. Certain other investments have struggled somewhat over the past 12 months, but the Manager continues to work closely with these companies' management teams to navigate their current challenges.

Other Significant Investment Movements

Investments

During the year ended 31 March 2023, the Company invested £28.4 million across 16 companies.

Seven new companies were added to the portfolio, receiving aggregate investment of £14.5 million; while a further £13.9 million was invested across nine existing portfolio companies, including an additional investment into Quality Clouds. The analysis of these investments is shown in Table C. The case studies on page 23 of the annual report give more information on the investments in AutomatePro and Quality Clouds.

Table C
Investments

Company	Investments made		
	New £million	Follow-on £million	Total £million
Quality Clouds	1.5	2.4	3.9
DrDoctor	3.6	-	3.6
Outpost	-	3.0	3.0
Unbiased	-	2.7	2.7
AutomatePro	2.2	-	2.2
Plandek	2.1	-	2.1
Summize	1.8	-	1.8
Vypr	-	1.8	1.8
Xapien	1.7	-	1.7
Biorelate	1.6	-	1.6
Elucidat	-	1.3	1.3
Wooshii	-	1.0	1.0
Vuealta	-	0.9	0.9
Force24	-	0.7	0.7
Other	-	0.1	0.1
Portfolio (including capitalised income)	14.5	13.9	28.4
Listed investment funds			0.5
Total additions in the year			28.9

Disposal of Investments

As set out in Table D below, during the year to 31 March 2023 the Company received proceeds from portfolio disposals of £20.4 million, a net gain of £5.3 million over the opening carrying value at the beginning of the year, and an overall net gain of £6.2 million over cost. This included the successful realisations of Springboard, Intelligent Office, Vuealta (partial) and Wakefield Acoustics. Further details are given in the Chairman's statement above.

Table D
Disposal of Investments

	Net proceeds from sale of investments £million	Opening value 31 March 2022* £million	Gain (loss) on opening value £million
Portfolio	20.4	15.1	5.3
Listed investment funds	0.3	0.4	(0.1)
Total investment disposals	20.7	15.5	5.2

* Including further investments during the year prior to realisation.

Further analysis of all investments sold in the year can be found in note 7 below.

Investment Portfolio Composition

As at 31 March 2023, the portfolio was valued at £123.4 million, comprising wholly of unquoted investments. An analysis of the movements in the year is shown below.

The portfolio has 27 investments valued above £1.0 million, four more than a year earlier, with the single largest investment, Matillion, representing 16.0 per cent of the NAV.

The charts on pages 15 and 16 of the annual report show the diversity of the portfolio, split by industry sector, age of investment, investment instrument and the valuation compared to cost.

Under VCT legislation, it is not possible to deposit funds for longer than seven days, which means that cash deposits must be available on very short notice. The Board and the Manager continually review opportunities to generate a higher level of income, without significantly changing the risk profile of the funds held. As part of this, the Company holds a small diversified quoted portfolio of listed investment funds, managed by Brewin Dolphin Limited. At 31 March 2023, this quoted portfolio was valued at £4.0 million, or 2.6 per cent of net assets, following a decrease in value of £0.8 million during the year.

Valuation Policy

Unquoted investments are valued in accordance with both IFRS 13 'Fair Value Measurement' and International Private Equity and Venture Capital Guidelines, December 2022 edition (IPEV Guidelines).

Initially, at the first quarter-end following investment, investments are valued at the price of the funding round; following this, the valuation switches to a new primary basis for all subsequent periods.

The valuation methodology applied depends upon the facts and circumstances of each individual investment. This may be with reference to revenue multiples, earnings multiples, net assets, discounted cash flows or calibrated from the price of the most recent investment.

The full valuation policy is set out in note 1 on pages 66 and 67 of the annual report.

Table E shows the value of investments within each valuation category as at 31 March 2023; no investments are currently valued using discounted cash flow methodologies.

With continued investment in earlier stage businesses that are investing for growth, the majority of valuations continue to be based on revenue multiples.

Table E
Valuation Policy

	2023		2022
	Valuation £million	% of portfolio by value	% of portfolio by value
Revenue multiple	97.0	79	72
Earnings multiple	15.8	13	21
Cost or price of recent investment, reviewed for change in fair value	5.5	4	3
Sale proceeds	3.1	2	-
Net assets, reviewed for change in fair value	2.0	2	2
Discounted cashflow	-	-	2
Total	123.4	100	100

Sustainable Investment and Environmental, Social and Governance (“ESG”) Management

The Company backs small UK businesses to help them to grow and produce strong financial returns for shareholders with the additional aim of building better businesses that are ultimately more sustainable.

In order to deliver more sustainable businesses, and to meet its commitments under the Principles for Responsible Investment (PRI), the Manager has continued to develop its processes in this area. The Manager’s approach is based on the belief that good businesses:

- Grow our economy
- Improve our society
- Value their people
- Protect the environment

These aims are consistent with the Company’s financial aims because businesses which improve in these areas also strengthen their resilience and value creation potential through their increased attractiveness to customers, employees, suppliers and eventual future owners and investors.

Sustainable Investment Principles

This set of principles guides the Manager’s investment process:

- To seek to understand the ESG related impacts on portfolio companies, aiming to grow and enhance positive outcomes and to avoid, reduce or minimise any negative impacts over an investment’s lifetime, leaving them overall better businesses;
- To play a positive role in the investor, business and wider communities by promoting good practice in ESG management, and by being transparent in the way that investments are made and how the Manager behaves;
- To increase focus on the challenge of climate change both as it may be affected by our investments, and as it may impact on them and their resilience to possible climate change scenarios;
- To show leadership by managing the Manager’s own business’ ESG impacts to the best of their ability; and
- To be a proactive signatory to the PRI and to integrate its principles into the Manager’s business practices.

In line with the PRI the Manager has developed processes to help the portfolio businesses to be better in each of these spheres, by assessing them in terms of creating positive impacts and outcomes and preventing or minimising negative ones.

The Manager has more recently developed and integrated its ESG management processes, which are:

Pre-investment Phase:

Structured processes at the pre-investment stage to identify areas of potential ESG improvement as part of the due diligence and pre-investment deliberations. Appropriate data is collected and assessed on each business against ESG criteria at the point of investment as a benchmark against which to evaluate future progress.

Portfolio Phase:

For those investments made since 2020, based on the data collected at the point of investment at the start of the portfolio phase, bespoke areas for improvement are agreed with each management team together with consequent objectives and targets. A similar process has been applied to the significant majority of investments made prior to 2020. Improvements are then measured and recorded against a set of ESG criteria using the Manager's bespoke ESG framework, refreshing targets annually and placing focus on any new issues as they become more material in the management of the company and in meeting the expectations of its stakeholders.

Reporting:

Annual reports will be produced, using the Manager's ESG framework for consistency, recording the relevant initiatives, impacts and ESG KPI performance of each company and providing an overview of progress across the Manager's portfolios.

Note that Investment Companies are not within scope for reporting under the Task Force on Climate-Related Financial Disclosures (TCFD); and the Company does not use more than 40,000kWh of energy and therefore is not required to report on its energy usage within Streamlined Energy and Carbon Reporting regulations.

ESG Performance Data and Reporting

ESG KPI data analysis

The Manager has developed its ESG KPI data collation process. It has established a data set reflecting the above ESG themes and a means of collecting this to make year on year comparisons for each company and across the portfolio. Where possible baseline data has been collected from the date of investment with a view to showing where the Manager's support has made a difference during the hold period to the reporting date.

Annual company specific ESG performance progress report

The reviews that the Manager has been conducting enabled the identification of relative strengths and weaknesses and agreement of programmes of action with each business.

Since 2021 the Manager has moved to recording annual updates and agreed actions in a more visual and detailed report on both qualitative and quantitative aspects of each company's progress. As well as using this for portfolio reporting to investors it will be used as an engagement tool with the senior management teams of each company.

2022 ESG KPI Report for Investments held in YFM's VCT funds

Growing our economy

- £44.7 million of R&D investment during 2022
- £51.6 million of export sales achieved in 2022

Improving our society

- 95 per cent of companies were independently chaired in 2022
- 40 per cent of companies had female directors on boards, with 20 per cent having a female CEO
- 40 per cent of businesses had a designated board member with responsibility for improving ESG issues

Valuing our people

- 35 per cent of the portfolio workforce was female in 2022
- 995 new jobs were created from date of investment to 2022

- 75 per cent had mental wellbeing programmes in place and 70 per cent held regular employee engagement surveys
- Approaching 29,000 hours of training was given to employees

Protecting our environment

- 60 per cent of companies had active carbon reduction strategies (up from 10 per cent at investment)
- 25 per cent offset all or a defined portion of their carbon impact
- But only 20 per cent formally measure their carbon footprint

Summary and Outlook

The portfolio continues to show its resilience, with strong underlying levels of revenue growth across the largest investments, helping to counter downward pressure on revenue multiples. Portfolio company management teams continue to be resilient and adaptable to economic conditions, which will hold them in good stead for future progress.

We continue to see a strong pipeline of potential investments in a range of growth companies, as well as opportunities to further support the continued growth of the current portfolio. We thank investors for their continuing support in the Company's recent fundraising, and are looking forward to putting the funds raised to work.

Eamon Nolan

YFM Private Equity Limited

16 June 2023

Portfolio Summary at 31 March 2023

Name of company	Date of initial investment	Location	Industry Sector	Amount invested £000	Valuation at 31 March 2023 £000	Recognised income/proceeds to date £000	Realised & unrealised value to date* £000
Matillion Limited	Nov-16	Manchester	Data	2,666	25,193	7,071	32,264
Unbiased EC1 Limited	Dec-19	London	Tech-enabled Services	5,596	9,976	-	9,976
Outpost VFX Limited	Feb-21	Bournemouth	New Media	4,500	9,420	23	9,443
Displayplan Holdings Limited	Jan-12	Stevenage	Business Services	1,300	7,901	3,168	11,069
Wooshii Limited	May-19	London	New Media	4,644	7,141	499	7,640
Elucidat Ltd	May-19	Brighton	Application Software	3,960	6,277	66	6,343
ACC Aviation Group Limited	Nov-14	Reigate	Business Services	2,068	5,398	5,280	10,678
Force24 Ltd	Nov-20	Leeds	Application Software	3,150	4,757	-	4,757
Quality Clouds Limited	May-22	London	Cloud & DevOps	3,916	4,074	-	4,074
Vypr Validation Technologies Limited	Jan-21	Manchester	Tech-enabled Services	3,300	4,051	-	4,051
DrDoctor (via ICNH Ltd)	Feb-23	London	Application Software	3,565	3,565	-	3,565
SharpCloud Software Limited	Oct-19	London	Data	3,407	3,404	-	3,404
Relative Insight Limited	Mar-22	Lancaster	Tech-enabled Services	3,000	2,794	-	2,794
Tonkotsu Limited	Jun-19	London	Retail & Brands	2,388	2,666	-	2,666
AutomatePro Limited	Dec-22	London	Cloud & DevOps	2,225	2,557	-	2,557
Vuealta Holdings Limited	Sep-21	London	Tech-enabled Services	3,045	2,126	4,601	6,727
Plandek Limited	Oct-22	London	Cloud & DevOps	2,070	2,070	-	2,070
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Application Software	1,716	2,049	827	2,876
Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,800	1,995	-	1,995
Summize Limited	Oct-22	Manchester	Application Software	1,800	1,885	-	1,885
KeTech Enterprises Limited	Nov-15	Nottingham	Tech-enabled Services	2,000	1,786	2,599	4,385
Xapien (via Digital Insight Technologies Ltd)	Mar-23	London	Application Software	1,740	1,740	-	1,740
Ncam Technologies Limited	Mar-18	London	New Media	2,643	1,659	131	1,790
Biorelate Limited	Nov-22	Manchester	Application Software	1,560	1,570	-	1,570
Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data	1,500	1,500	-	1,500
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Cloud & DevOps	2,654	1,464	1	1,465
E2E Engineering Limited	Sep-17	Welwyn Garden City	Business Services	900	1,200	223	1,423
Other investments below £0.75 million				12,413	3,143	7,797	10,940

Total unquoted investments	85,526	123,361	32,286	155,647
Full disposals to date	74,032	-	147,832	147,832
Total portfolio	159,558	123,361	180,118	303,479

*represents recognised income and proceeds received to date plus the unrealised valuation at 31 March 2023.

Summary of Portfolio Movement since 31 March 2022

Name of Company	Investment valuation at 31 March 2022 £000	Disposal proceeds £000	Additions including capitalised income £000	Valuation gains including profits (losses) on disposal £000	Investment valuation at 31 March 2023 £000
Vuealta Holdings Limited/Vuealta Group Limited	2,308	(4,601)	946	3,473	2,126
Outpost VFX Limited	3,310	-	3,000	3,110	9,420
Unbiased EC1 Limited	6,230	-	2,650	1,096	9,976
Wooshii Limited	5,098	-	984	1,059	7,141
Traveltek Group Holdings Limited	1,549	-	-	500	2,049
Elucidat Ltd	4,634	-	1,260	383	6,277
Panintelligence (via Paninsight Limited)	1,125	-	-	375	1,500
AutomatePro Limited	-	-	2,225	332	2,557
Frescobol Carioca Ltd	1,811	-	-	184	1,995
Tonkotsu Limited	2,496	-	-	170	2,666
Quality Clouds Limited	-	-	3,916	158	4,074
E2E Engineering Limited	1,078	-	-	122	1,200
Vypr Validation Technologies Limited	2,148	-	1,800	103	4,051
Summize Limited	-	-	1,800	85	1,885
Force24 Ltd	3,997	-	750	10	4,757
Biorelate Limited	-	-	1,560	10	1,570
DrDoctor (via ICNH Ltd)	-	-	3,565	-	3,565
Plandek Limited	-	-	2,070	-	2,070
Xapien (via Digital Insight Technologies Ltd)	-	-	1,740	-	1,740
Relative Insight Limited	3,000	-	-	(206)	2,794
Ncam Technologies Limited	2,213	-	-	(554)	1,659
Other investments £0.75 million and below	620	-	120	(623)	117
Sipsynergy (via Hosted Network Services Limited)	2,096	-	-	(632)	1,464
SharpCloud Software Limited	4,298	-	-	(894)	3,404
Arcus Global Limited	1,365	-	-	(1,126)	239
Matillion Limited	28,053	-	-	(2,860)	25,193
Investments made after November 2015	77,429	(4,601)	28,386	4,275	105,489
Displayplan Holdings Limited	4,393	-	-	3,508	7,901
Springboard Research Holdings Limited	6,638	(8,673)	-	2,035	-
ACC Aviation Group Limited	3,641	-	-	1,757	5,398
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	5,051	(6,119)	-	1,068	-
Wakefield Acoustics (via Malvar Engineering)	-	(972)	-	972	-
Other investments £0.75 million and below	2,081	-	-	706	2,787
KeTech Enterprises Limited	1,926	-	-	(140)	1,786
Investments made prior to November 2015	23,730	(15,764)	-	9,906	17,872
Total portfolio	101,159	(20,365)	28,386	14,181	123,361

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 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 rigorously applies the principles detailed in section 4: of The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018: “Audit, Risk and Internal Control”. Details of the Company’s internal controls are contained in the Corporate Governance Internal Control section on pages 47 and 48 of the annual report and further information on exposure to risks, including those associated with financial instruments, can be found in note 16a of the financial statements.

The Board has considered emerging risks. The Board seeks to mitigate identified and emerging risks by regular reviews of performance and monitoring compliance with policy. The Board has identified the following as potential emerging risks:

- Deterioration of macro-economic environment
- Geo-political instability

VCT Qualifying Status:

Risk - The Company must at all times ensure compliance with the conditions for maintenance of approved VCT status. The loss of approval as a VCT could lead to its investors losing the various tax benefits associated with VCT investments.

Mitigation - One of the Key Performance Indicators monitored by the Company is the compliance with VCT rules. Compliance with these rules is closely monitored by the Manager on an ongoing basis and regularly reported to and reviewed by the Board. The Company also makes use of external experts, who review the Company’s compliance with VCT rules on a regular basis. Details of how the Company manages these requirements can be found under the heading “Compliance with VCT Legislative Tests” on pages 13 and 14 of the annual report.

Change – No change

Economic:

Risk - Events such as recession and interest rate fluctuations, which may include factors arising from geopolitical shocks, could adversely affect investee companies’ performance and valuations. This could result in a reduction in the performance of the Company.

Mitigation - As well as the response to the ‘Investment and Strategic’ risk below, the Company has a clear investment policy (summarised above) and a diversified portfolio operating in a range of sectors which helps mitigate against sector specific impacts. The Manager actively monitors investee company performance, which provides quality information for monthly reviews of the portfolio.

Change – Stable – the war in Ukraine and the inflationary environment continue to mean this risk is slightly increased, albeit at a similar level to last year.

Investment and Strategic:

Risk - Inappropriate strategy, poor asset allocation or consistently weak stock allocation may lead to underperformance and poor returns to shareholders. The quality of enquiries, investments, investee company management teams and monitoring, and the risk of not identifying investee company difficulties may lead to underperformance by the Company 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. It also reviews compliance of the Manager with the stated investment strategy.

The Manager carries out appropriate 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 nonexecutive director will be appointed to the board of the investee company on behalf of the Company.

Change – No change

Regulatory:

Risk - The Company is required to comply with the Companies Act 2006, the rules of the UK Listing authority, the Financial Conduct Authority's Prospectus Rules and UK adopted international accounting standards; it is also subject to the AIFMD EU Exit Regulations. 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 Manager ensures that it hires suitably qualified members of staff who are experienced with regulatory requirements and relevant accounting standards.

The key controls around regulatory compliance are explained on pages 47 and 48 of the annual report.

Change – No change

Legislative:

Risk - A change to the VCT regulations could result in a significant change to investment strategy which could adversely impact the Company. Such changes may also result in changes to VCT tax reliefs for investors, which could make future fundraising difficult.

Mitigation - The Manager is a member of the Venture Capital Trust Association which engages with the Government to help shape future legislation.

Change – No change

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. It has a formal recruitment process to employ experienced investment staff. Advice is sought from external advisors where required.

Change – No change

Operational:

Risk – The Company is reliant on a number of third parties, in particular the Manager, for investment management and administrative services. Failure of the operational systems and controls of these third parties could result in 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. The Manager regularly tests its business continuity plan. Both the Company and the Manager maintain appropriate insurances.

Change – No change

Cyber Security and Information Technology:

Risk – A failure in IT systems and controls might lead to business interruption, loss of data, the inability of the Manager to provide accurate reporting and monitoring or the loss of Company records.

Mitigation - The Manager has in place significant cybersecurity controls, including two factor authentication, email protection software, monitored firewalls and regularly updated electronic devices. The Manager is Cyber Essentials Plus certified. Staff at the Manager regularly receive training in relation to their cybersecurity obligations.

Change – No change

ESG:

Risk - The Company, the Manager and the portfolio companies may fail to positively contribute towards, and adapt to, the global transition towards decarbonisation and other ESG priorities, which could result in regulatory breaches, reduced investor and/or employee attraction and the reduced ability of portfolio companies to attract lending to fund their growth.

Mitigation - The Manager is a signatory of the UN's Principles for Responsible Investment; it has published its Sustainable Investment Principles; and has rewritten its Ethical Policy. Its investment process now includes a set of over 50 thematic ESG KPIs, with which it is now tracking its portfolio over time across four key areas: Improve our Society; Protect our Environment; Grow our Economy; and Value our People. Further details can be found on pages 20 to 22 of the annual report.

Change – No change

Liquidity:

Risk –

- a. The Company may not have sufficient liquidity available to meet its financial obligations.
- b. The VCT invests into smaller unquoted companies, which by their nature are illiquid, therefore they may be difficult to realise, at fair market value, at short notice.

Mitigation – The Company's overall liquidity risks and cashflow forecast are monitored on an ongoing basis by the Manager and on a quarterly basis by the Board.

The Company's valuation methodology takes account of potential liquidity restrictions in the markets in which it invests.

For any publicly listed investments, accounting standards require an ongoing assessment of the liquidity of the stock.

The Manager regularly reviews its exit plans for investee companies to allow it to identify the optimal point at which to seek a sale. As part of a planned exit, the assistance of a third party adviser will normally be sought, with a view to identifying the largest number of possible purchasers.

Change – No change

Other Matters

Section 172 Statement

This Section 172 Statement should be read in conjunction with the other contents of the Strategic Report, on pages 5 to 35 of the annual report.

Section 172 of the Companies Act 2006 requires that a director 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

As an investment company with no employees, the Company's key stakeholders are its investors, its service providers and its portfolio companies.

Investors

The Board engages and communicates with shareholders in a variety of ways.

The Company encourages shareholders to attend its Annual General Meeting.

Along with British Smaller Companies VCT2 plc, the Company held two Investor Workshops during the year. An in-person workshop was held on 29 June 2022 and an online webinar was hosted on 1 December 2022. Both were well attended.

Maintaining the Company's status as a VCT is critical to meeting the Company's objective to maximise Total Return and provide investors with an attractive long-term tax-free dividend yield. The Company receives regular reports on this issue from the Manager and has taken various steps in the year to ensure that the relevant tests are met.

The Board also aims for investors to continue to have tax efficient opportunities to invest in the Company, and to generate tax-free returns from both capital appreciation and ongoing dividends.

Following shareholder approval at a General Meeting in October 2022, the Company cancelled the balance of its Share Premium, £63.6 million, which was transferred to the Capital Reserve, giving the Company greater flexibility to continue to pay regular dividends to shareholders and to provide its periodic offer to buy back shares from shareholders. As set out on page 63 of the annual report, this will become available for distribution at various times over the period to 1 April 2026.

After carefully considering its funding needs, on 30 November 2022, the Company issued a prospectus, alongside British Smaller Companies VCT2 plc, to raise up to £75 million in aggregate for the 2022/23 tax year.

During the year the Board kept its arrangements for dividends, share buy-backs and the dividend re-investment scheme under constant review. Along with normal dividends totalling 4.0 pence per ordinary share in the year ended 31 March 2023, a special dividend of 4.5 pence per ordinary share was paid in January 2023, following the realisation of the Company's investments in Springboard and Intelligent Office.

Manager

The Company's most important service provider is its 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, alongside the board of British Smaller Companies VCT2 plc.

The Manager maintains strong relationships with relevant media publications and a wide range of distributors for the Company's shares, including wealth managers, independent financial advisers and execution-only brokers. RAM Capital acts as a promoter of the Company's shares to smaller distributors.

The Company is a member of the Association of Investment Companies which promotes the interests of investment companies, including VCTs. The Manager is a founder member of the Venture Capital Trust Association, which promotes the interests of VCTs in a variety of ways.

Portfolio Companies

The Company holds minority investments in its portfolio companies and has delegated the management of the portfolio to the Manager. The Manager provides the Board with regular updates on the performance of each portfolio company at least quarterly and the Board is made aware of all major issues.

The Manager has a dedicated Portfolio team to assist the portfolio companies with the challenges that they face as fast-growing companies. The Manager promotes ongoing, sustainable growth within the businesses; this often involves improving systems and processes, as well as significant job creation.

Employees

The Company has no employees. The Board is composed of one female non-executive director and three male non-executive directors. For a review of the policies used when appointing directors to the Board of the Company, please refer to the Directors' Remuneration Report.

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 and has signed up to the United Nations' Principles for Responsible Investment.

More details of the work that the Manager has done in this area are set out on pages 20 to 22 of the annual report. Its Sustainable Investment Policy can be found at www.yfmep.com/who-we-are/our_impact/.

Business Conduct

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

- > It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships;
- > The directors of the Company, the 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.

Rupert Cook

Chairman

16 June 2023

FINANCIAL STATEMENTS

Statement of Comprehensive Income For the year ended 31 March 2023

	Notes	2023			2022		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on investments held at fair value	7	-	8,152	8,152	-	25,515	25,515
Gain on disposal of investments	7	-	5,213	5,213	-	5,131	5,131
Gain arising from the investment portfolio		-	13,365	13,365	-	30,646	30,646
Income	2	1,994	-	1,994	1,065	-	1,065
Total income		1,994	13,365	15,359	1,065	30,646	31,711
Administrative expenses:							
Manager's fee		(696)	(2,086)	(2,782)	(577)	(1,732)	(2,309)
Incentive fee		-	(125)	(125)	-	(621)	(621)
Other expenses		(215)	-	(215)	(517)	-	(517)
		(911)	(2,211)	(3,122)	(1,094)	(2,353)	(3,447)
Profit (loss) before taxation		1,083	11,154	12,237	(29)	28,293	28,264
Taxation		-	-	-	-	-	-
Profit (loss) for the year		1,083	11,154	12,237	(29)	28,293	28,264
Total comprehensive income (expense) for the year		1,083	11,154	12,237	(29)	28,293	28,264
Basic and diluted earnings (loss) per ordinary share	6	0.58p	5.96p	6.54p	(0.02p)	18.24p	18.22p

The accompanying notes on pages 65 to 91 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 UK adopted international accounting standards. 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 July 2022 – "SORP") published by the AIC.

Balance Sheet

At 31 March 2023

	Notes	2023 £000	2022 £000
ASSETS			
Non-current assets at fair value through profit or loss			
Financial assets at fair value through profit or loss	7	127,406	105,865
Accrued income and other assets		1,556	907
		128,962	106,772
Current assets			
Accrued income and other assets		161	150
Current asset investments		7,501	14,471
Cash and cash equivalents		20,766	38,928
		28,428	53,549
LIABILITIES			
Current liabilities			
Trade and other payables		(358)	(787)
Net current assets		28,070	52,762
Net assets		157,032	159,534
Shareholders' equity			
Share capital		20,969	20,510
Share premium account		1,700	62,123
Capital reserve		82,893	33,620
Investment holding gains and losses reserve		49,215	41,982
Revenue reserve		2,255	1,299
Total shareholders' equity		157,032	159,534
Net asset value per ordinary share	8	83.7p	85.7p

The accompanying notes on pages 65 to 91 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 16 June 2023.

Rupert Cook
Chairman

Statement of Changes in Equity

For the year ended 31 March 2023

	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 2021	16,131	29,995	41,106	18,944	4,184	110,360
<i>Revenue loss for the year</i>	-	-	-	-	(29)	(29)
<i>Expenses charged to capital</i>	-	-	(2,353)	-	-	(2,353)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	25,515	-	25,515
<i>Realisation of investments in the year</i>	-	-	5,131	-	-	5,131
Total comprehensive income (expense) for the year	-	-	2,778	25,515	(29)	28,264
<i>Issue of share capital</i>	3,952	30,676	-	-	-	34,628
<i>Issue of shares – DRIS</i>	427	2,990	-	-	-	3,417
<i>Issue costs *</i>	-	(1,538)	-	-	-	(1,538)
<i>Purchase of own shares</i>	-	-	(2,498)	-	-	(2,498)
<i>Dividends</i>	-	-	(10,303)	-	(2,796)	(13,099)
Total transactions with owners	4,379	32,128	(12,801)	-	(2,796)	20,910
Realisation of prior year investment holding gains	-	-	2,537	(2,477)	(60)	-
Balance at 31 March 2022	20,510	62,123	33,620	41,982	1,299	159,534
<i>Revenue return for the year</i>	-	-	-	-	1,083	1,083
<i>Expenses charged to capital</i>	-	-	(2,211)	-	-	(2,211)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	8,152	-	8,152
<i>Realisation of investments in the year</i>	-	-	5,213	-	-	5,213
Total comprehensive income for the year	-	-	3,002	8,152	1,083	12,237
<i>Issue of shares – DRIS</i>	459	3,245	-	-	-	3,704
<i>Issue costs *</i>	-	(62)	-	-	-	(62)

<i>Share premium cancellation</i>	-	(63,606)	63,606	-	-	-
<i>Purchase of own shares</i>	-	-	(2,497)	-	-	(2,497)
<i>Dividends</i>	-	-	(15,757)	-	(127)	(15,884)
Total transactions with owners	459	(60,423)	45,352	-	(127)	(14,739)
Realisation of prior year investment holding gains	-	-	919	(919)	-	-
Balance at 31 March 2023	20,969	1,700	82,893	49,215	2,255	157,032

The accompanying notes on pages 65 to 91 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 £000	Revenue reserve £000	Total £000
Distributable reserves as shown above	82,893	2,255	85,148
Income not yet distributable	-	(1,617)	(1,617)
Cancelled share premium not yet distributable	(40,769)	-	(40,769)
Reserves available for distribution**	42,124	638	42,762

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

** Following the circulation of the Annual Report to shareholders.

The capital reserve and revenue reserve are both distributable reserves. The reserves total £85,148,000, representing an increase of £50,229,000 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 £85,148,000 shown above, £1,617,000 relates to income not yet distributable and £40,769,000 relates to cancelled share premium which will become distributable from the dates shown in the table below.

Following shareholder approval at the 2022 Annual General Meeting, in October 2022 the Company cancelled the balance of its Share Premium, £63,606,000, of which £22,837,000 is now distributable. The remaining share premium cancelled will be available for distribution from the following dates:

	£000
1 April 2024	7,157
1 April 2025	32,128
1 April 2026	1,484
Cancelled share premium not yet distributable	40,769

Statement of Cash Flows

For the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Net cash outflow from operating activities		(2,277)	(1,483)
Cash flows generated from (used in) investing activities			
Cash maturing from fixed term deposits		6,970	-
Purchase of financial assets at fair value through profit or loss	7	(28,832)	(10,465)
Proceeds from sale of financial assets at fair value through profit or loss	7	20,716	14,069
Deferred consideration	7	-	240
Net cash (outflow) inflow from investing activities		(1,146)	3,844
Cash flows from (used in) financing activities			
Issue of ordinary shares		-	34,628
Costs of ordinary share issues*		(62)	(1,538)
Purchase of own ordinary shares		(2,497)	(2,498)
Dividends paid	5	(12,180)	(9,682)
Net cash (outflow) inflow from financing activities		(14,739)	20,910
Net (decrease) increase in cash and cash equivalents		(18,162)	23,271
Cash and cash equivalents at the beginning of the year		46,429	23,158
Cash and cash equivalents at the end of the year		28,267	46,429

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

Cash and cash equivalents comprise:

Money market funds	7,501	7,501
Cash at bank	20,766	38,928
Cash and cash equivalents at the end of the year	28,267	46,429

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

	2023 £000	2022 £000
Profit before taxation	12,237	28,264
(Decrease) increase in trade and other payables	(429)	601
(Increase) decrease in accrued income and other assets	(660)	387
Gain on disposal of investments	(5,213)	(5,131)
Gains on investments held at fair value	(8,152)	(25,515)
Capitalised income	(60)	(89)
Net cash outflow from operating activities	(2,277)	(1,483)

The accompanying notes on pages 65 to 91 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 Directors Report on pages 37 and 38 of the annual report and in accordance with UK adopted international accounting standards.

The directors have carefully considered the issue of going concern in view of the Company's activities and associated risks. The Company has a well-diversified portfolio with businesses in a variety of sectors, many of which are well funded. Some portfolio companies may require additional funding in the near-to medium-term; the Company is well placed to provide this, where appropriate.

The Company has a significant level of liquidity, which was enhanced by the April 2023 fundraising. In addition, the Board has control over, and can flex as appropriate, the Company's major outgoings, which predominantly comprise investments, dividends and share buy-backs.

The directors have also assessed whether material uncertainties exist and their potential impact on the Company's ability to continue as a going concern; they have concluded that no such material uncertainties exist.

Taking all of the above into consideration, the directors are satisfied that the Company has sufficient resources to meet its obligations for at least 12 months from the date of this report and therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the financial statements.

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 July 2022 – "SORP") to the extent that they do not conflict with UK adopted international accounting standards.

The financial statements are prepared in accordance with UK adopted international accounting standards and interpretations in force at the reporting date. New standards coming into force during the year and future standards that come into effect after the year-end 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.

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 - Investments

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.

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 Valuation Guidelines (“the IPEV Guidelines”) updated in December 2022. 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 IPEV 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

- > **Revenue multiples.** An appropriate multiple, given the risk profile and revenue 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 IPEV 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 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.

Listed Investment Funds

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 2023.

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 current asset investments. 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. 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.

Incentive Fee

The incentive fee is accounted for on an accruals basis. As further detailed in note 3, a performance incentive fee is payable to the Manager subject to the Company achieving both a target level of Total Return (the "Total Return Hurdle") and dividends ("Dividend Hurdle"). Subject to meeting the Total Return Hurdle, the Manager will receive an amount equivalent to 20 per cent of the amount by which dividends paid per share exceeds the Dividend Hurdle, multiplied by the number of shares in issue at the year end. The incentive fee in any financial year will be subject to a cap if the excess of dividends paid over the Dividend Hurdle is greater than the sum of the excess of the Total Return over the Total Return Hurdle divided by 1.2. At the end of each reporting period, an accrual is recognised based upon the dividends paid during the financial year to date and the Total Return at the end of the reporting period. The incentive fee is charged wholly through the Capital column.

Cash, Cash Equivalents and Current Asset Investments

Cash at bank comprises cash at hand and bank deposits with an original maturity of less than three months, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

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 and cash equivalents are valued at amortised cost, which equates to fair value.

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 management 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 of the financial statements;
- > 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.

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

	2023	2022
	£000	£000
Dividends from unquoted companies	1,102	504
Interest on loans to unquoted companies	263	359
Income from unquoted portfolio	1,365	863
Income from listed investment funds	300	129
Income from investments held at fair value through profit or loss	1,665	992
Interest from bank deposits/money market funds	329	73
	1,994	1,065

3. Administrative Expenses

	2023	2022
	£000	£000
Manager's fee	2,782	2,309
Administration fee	75	69
Total payable to YFM Private Equity Limited	2,857	2,378
Incentive fee	125	621
<i>Other expenses:</i>		
General expenses	149	90
Directors' remuneration	141	124
Listing and registrar fees	80	58
Auditor's remuneration - audit of the financial statements (excluding irrecoverable VAT)	64	43
Trail commission paid to financial intermediaries	92	60
Printing	51	41
Irrecoverable VAT	46	32
	3,605	3,447
Fair value movement related to credit risk	(483)	-
	3,122	3,447

Ongoing charges figure	2.12%	2.02%
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Directors' remuneration comprises only short-term benefits including social security contributions of £13,000 (2022: £9,000).

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

No fees are payable to the auditor in respect of other services (2022: £nil, apart from costs of £12,000 for audit-related assurance services which were charged to the share premium account).

YFM Private Equity Limited provides management services to the Company under an agreement (IA) 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.

The key features of the IA 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 £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 2023 of £157,032,000 and cash and cash equivalents of £28,267,000 at that date, this equates to approximately £2,933,000 per annum;
- Under the IA 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 £75,000 for the year ended 31 March 2023 (2022: £69,000); 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 (2022: £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 2023, the Company was due a rebate from the Manager of £1,320 (2022: £nil).

The total remuneration payable to YFM Private Equity Limited under the IA in the period was £2,857,000 (2022: £2,378,000).

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 IA, 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 2023 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £1,355,000 (2022: £729,000).

A performance incentive fee is payable to the Manager subject to the Company achieving both a target level of Total Return (the “Total Return Hurdle”) and dividends (“Dividend Hurdle”). Subject to meeting the Total Return Hurdle, the Manager will receive an amount equivalent to 20 per cent of the amount by which dividends paid per share exceeds the Dividend Hurdle, multiplied by the number of shares in issue at the year end. The incentive fee in any financial year will be subject to a cap if the excess of dividends paid over the Dividend Hurdle is greater than the sum of the excess of the Total Return over the Total Return Hurdle divided by 1.2. With effect from 31 March 2019 the Total Return Hurdle was 228.6 pence per share and the annual increase is equivalent to 4.0 pence per 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 2023 the annual increase in the Total Return Hurdle was 6.1 pence per share.

The Dividend Hurdle was 4.0 pence per share (increasing in line with RPI) from 1 April 2009. For the year ended 31 March 2023 the Dividend Hurdle was 6.1 pence per share.

The incentive fees payable for the years ended 31 March 2022 and 31 March 2023 were calculated as follows:

	2023	2022
Total Return Hurdle (p)	258.20	250.40
Actual Total Return per Share before incentive fee (p)	258.60	252.40
Excess over Total Return Hurdle (p)	0.40	2.00
Dividend Hurdle (p)	6.10	5.60
Actual Dividends per share (p)	8.50	9.00
Excess over Dividend Hurdle (p)	2.40	3.40
Lower excess of the two hurdles (p)	0.40	2.00
Fee impact reduction (divide by 1.2) (p)	0.333	1.667
Performance fee per share at 20% of adjusted excess (p)	0.067	0.333
Number of shares in issue ('000)	187,679	186,260
Incentive fee payable (£'000)	125	621

The Total Return Hurdle for the year ending 31 March 2024 is 265.5 pence per share. The Dividend Hurdle is 7.0 pence per share.

If the annual incentive fee exceeds £5.0 million 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 Company’s total costs in a single year do not exceed 5 per cent of net assets. Any excess over the 5 per cent is carried forward to be included in the calculation of the amount that can be paid in future years. Except with shareholder approval the maximum fee payable in any 12 month period will not exceed £7.5 million.

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 22 September 2021, YFM Private Equity Limited was entitled to 3.0 per cent of gross subscriptions, (3.5 per cent for Applications received from Applicants who did not invest their money through a financial intermediary advisor and invested directly into the Company) less commissions payable to an execution-only broker or platform. The net amount paid to YFM Private Equity Limited under this offer amounted to £1,019,000.

Under the terms of the offer launched with British Smaller Companies VCT2 plc on 30 November 2022, YFM Private Equity Limited was entitled to 3.0 per cent of gross subscriptions, (3.5 per cent for Applications received from Applicants who did not invest their money through a financial intermediary advisor and invested directly into the Company) less commissions payable to an execution-only broker or platform. The net amount paid to YFM Private Equity Limited under this offer amounted to £1,383,000.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 50 of the annual report under the heading "Directors' Remuneration for the year ended 31 March 2023 (audited)".

4. Taxation

	2023			2022		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Profit (loss) before taxation	1,083	11,154	12,237	(29)	28,293	28,264
Profit (loss) before taxation	206	2,119	2,325	(6)	5,376	5,370
multiplied by standard rate of corporation tax in UK of 19% (2022: 19%)						
Effect of:						
UK dividends received	(297)	-	(297)	(103)	-	(103)
Non-taxable profits on investments	-	(2,539)	(2,539)	-	(5,823)	(5,823)
Deferred tax not recognised	91	420	511	109	447	556
Tax charge	-	-	-	-	-	-

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

Deferred tax assets of £4,754,000 (2022: £4,077,000) calculated at 25% (2022: 25%) in respect of unrelieved management expenses (£19.01 million as at 31 March 2023 and £16.31 million as at 31 March 2022) 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:

	2023			2022		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Interim dividend for the year ended 31 March 2023 of 2.0p (2022: 2.0) per ordinary share	-	3,725	3,725	2,796	116	2,912
Second interim dividend for the year ended 31 March 2023 of 2.0p (2022: 5.0p) per ordinary share	-	3,736	3,736	-	7,244	7,244
Third interim dividend for the year ended 31 March 2023 of 4.5p (2022: 2.0p) per ordinary share	127	8,296	8,423	-	2,943	2,943
	127	15,757	15,884	2,796	10,303	13,099
Shares allotted under DRIS			(3,704)			(3,417)
Dividends paid in Statement of Cash Flows			12,180			9,682

The first interim dividend of 2.0 pence per ordinary share was paid on 12 July 2022 to shareholders on the register as at 10 June 2022.

The second interim dividend of 2.0 pence per ordinary share was paid on 3 October 2022 to shareholders on the register as at 2 September 2022.

The third interim dividend of 4.5 pence per ordinary share was paid on 11 January 2023 to shareholders on the register as at 18 November 2022.

An interim dividend of 2.0 pence per ordinary share, in respect of the year ending 31 March 2024, will be paid on 28 July 2023 to shareholders on the register on 30 June 2023. This dividend was not recognised in the year ended 31 March 2023 as the obligation did not exist at the balance sheet date.

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

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £12,237,000 (2022: £28,264,000) and 187,113,203 (2022: 155,125,398) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings (loss) per ordinary share is based on the revenue profit for the year attributable to shareholders of £1,083,000 (2022: loss of £29,000) and 187,113,203 (2022: 155,125,398) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted capital earnings per ordinary share is based on the capital profit for the year attributable to shareholders of £11,154,000 (2022: £28,293,000) and 187,113,203 (2022: 155,125,398) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 4,591,917 new ordinary shares in respect of its DRIS.

The Company has also repurchased 3,172,783 of its own shares in the year, and these shares are held in the capital reserve. The total of 20,007,765 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 consequently, basic and diluted earnings per ordinary share are equivalent in both the year ended 31 March 2023 and 31 March 2022.

7. Financial Assets at Fair Value through Profit or Loss - Investments

IFRS 13, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active 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 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 revenue and earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The majority of the Company's investments fall into this category at 31 March 2023.

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 listed investment funds, 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 2023 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	Total
	Unquoted Investments	Listed Investment Funds	
	£000	£000	£000
Opening cost	59,265	4,618	63,883
Opening investment holding gain	41,894	88	41,982
Opening fair value at 1 April 2022	101,159	4,706	105,865
Additions at cost	28,326	506	28,832
Capitalised income	60	-	60
Disposal proceeds	(20,365)	(351)	(20,716)
Net profit (loss) on disposal	5,273	(60)	5,213
Change in fair value	7,098	(756)	6,342
Foreign exchange gain	1,810	-	1,810
Closing fair value at 31 March 2023	123,361	4,045	127,406
Closing cost	73,515	4,676	78,191
Closing investment holding gain (loss)	49,846	(631)	49,215
Closing fair value at 31 March 2023	123,361	4,045	127,406

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2022: £nil).

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in fair value of financial assets held at the price of recent investment, or to adjust revenue and earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's level 3 investments, 79 per cent are held on a revenue multiple basis and 13 per cent on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table on page 76 of the annual report sets out the range of Revenue Multiple (RM), Earnings Multiple (EM), and discounts applied in arriving at investments valued on these bases. The remaining 8 per cent are valued based on cost or price of recent investment, reviewed for change in fair value (4 per cent), net asset value reviewed for change in fair value (2 per cent) and expected sale proceeds (2 per cent).

The following disposals took place in the year:

	Net proceeds from sale	Cost	Opening carrying value as at 1 April 2022	Profit (loss) on disposal
	£000	£000	£000	£000
<i>Unquoted investments:</i>				
Springboard Research Holdings Limited	8,673	2,822	6,638	2,035
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	6,119	2,934	5,051	1,068
Vuealta Group Limited*	4,601	2,954	3,163	1,438
Wakefield Acoustics (via Malvar Engineering Limited)	972	1,080	-	972
Arraco Global Markets Limited*	-	2,670	240	(240)
Seven Technologies Holdings Limited	-	1,677	-	-
Total from portfolio	20,365	14,137	15,092	5,273
Listed investment funds	351	447	411	(60)
Total from investment portfolio	20,716	14,584	15,503	5,213

* opening carrying value includes further investments made during the year.

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 £157,032,000 (2022: £159,534,000) and 187,679,279 (2022: 186,260,145) 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 2023.

The Company has no potentially dilutive shares and consequently, basic and diluted net asset values per ordinary share are equivalent in both the years ended 31 March 2023 and 31 March 2022.

9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 174.9 pence per ordinary share (2022: 166.4 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 2023 or 31 March 2022.

11. Events after the Balance Sheet Date

On 4 April 2023 the Company allotted shares from its fully subscribed 2022/23 share offer. £44.3 million was raised by the Company, resulting in the allotment of 53,559,905 ordinary shares. This increased the number of ordinary shares issued with voting rights to 241,239,184.

Following the year end, one investment of £0.8 million has been completed into Relative Insight, and the Company realised its investment in Ncam, in line with the valuation at 31 March 2023, with initial proceeds of £1.4 million being received.

12. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 March 2023 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 2023 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 Mr R Cook, Mr A C N Bastin, Mr J Cartwright and Ms P Sapre.

14. Annual General Meeting

The Annual General Meeting of the Company will be held at 9:30 am on 14 September 2023 at 8-10 Hill Street, London, W1J 5NG. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 92 of the annual report.

15. Interim Dividend for the Year Ending 31 March 2024

The directors are pleased to announce the payment of an interim dividend for the year ending 31 March 2024 of 2.0 pence per ordinary share ("Interim Dividend").

The Interim Dividend will be paid on 28 July 2023 to those shareholders on the Company's register at the close of business on 30 June 2023. The ex-dividend date will be 29 June 2023.

The directors are not proposing a final dividend for the year ended 31 March 2023.

16. Dividend Re-investment Scheme

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of new or updated DRIS elections in respect of the Interim Dividend is the close of business on 14 July 2023.

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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