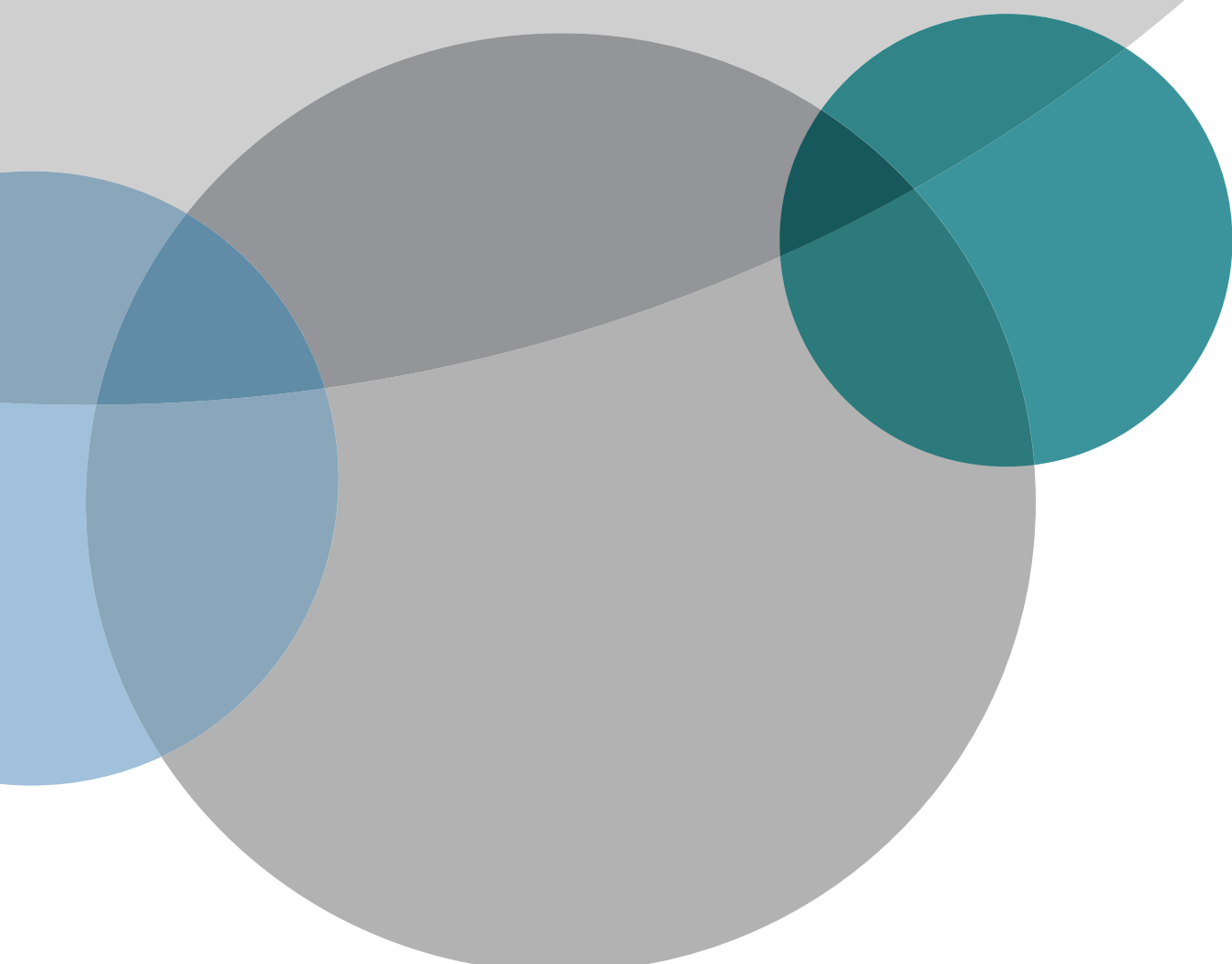




British Smaller Companies VCT2 plc

Annual Report

for the year ended 31 December 2019



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Transforming small businesses



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Best VCT Report
and Accounts

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About us

British Smaller Companies VCT2 plc was formed in 2000 and invests in a combination of businesses operating in established and emerging industries that offer opportunities in the application and development of innovation.

A diverse existing portfolio of 31 active investments reduces the exposure to particular markets and individual companies. The current investment portfolio has a valuation of £47.9 million as at 31 December 2019.

Registered Number:

04084003



Discover more about
British Smaller Companies VCT2 plc
www.bscfunds.com

BRITISH SMALLER COMPANIES VCT2 PLC

Transforming small businesses

Investment Adviser

British Smaller Companies VCT2 plc (“the Company”) is advised by YFM Private Equity Limited (“the Investment Adviser”) which is a wholly owned subsidiary of YFM Equity Partners LLP and is authorised and regulated by the Financial Conduct Authority.

Investment Policy

The investment strategy of the Company is to 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, therefore, comprise mainly equity investments. Further details of the Company’s investment policy can be found in the Strategic Report on page 10.

Dividend Policy

Your Board remains committed to achieving the objective, over time, of paying tax free dividends from realised investment returns. This depends upon the level of investment income and realisations that the Company is able to make or achieve in any one period and cannot be guaranteed.

The tax reliefs that are available for an investment in a VCT are of particular benefit for qualifying shareholders as there is no income tax payable on the dividend received, or need to declare them in a tax return.

Share Buy-Backs

Share buy-backs enable shareholders to obtain some liquidity in an otherwise illiquid market when there is a need to dispose of shares. This policy is kept under active review to ensure that any decisions taken are in the interests of shareholders as a whole. The current rate of discount at which ordinary shares will be bought back is targeted to be no more than five per cent of the latest reported net asset value.

Dividend Re-Investment Scheme (“DRIS”)

The Company operates a DRIS which gives shareholders the opportunity to re-invest any cash dividends. Currently dividends are re-invested at a five per cent discount to the latest reported net asset value as adjusted for the relevant dividend in question if this has not already been recognised. Any dividends that are re-invested by qualifying shareholders are eligible for income tax relief at 30 per cent of the amount invested subject to an annual investment limit of £200,000. The Finance Act 2014 confirmed that shares acquired at any time under dividend re-investment schemes will not impact tax relief on sales of, or subscriptions for, VCT shares, unless in the latter case it results in a breach of the £200,000 investment limit.

Financial Highlights

TOTAL RETURN¹

121.7p

↑ 3.3p

Total Return increased by 5.5 per cent over opening net asset value

Since 31 December 2018 your Company's Total Return has increased by 3.3 pence, from 118.4 pence per ordinary share to 121.7 pence per ordinary share, which includes cumulative dividends paid of 66.5 pence per ordinary share.

REALISATION PROCEEDS

£7.1m

↑ £2.9m

Realisations of investments and loan repayments generated total proceeds of £7.1 million in the year, a gain of £2.9 million over the opening carrying value and £2.8 million over cost.

FUNDRAISING

£12.7m

for 2019

The joint offer with British Smaller Companies VCT plc was fully subscribed, raising net funds of £12.7 million.

INVESTMENT GROWTH¹

13.6%

↑ £5.2m

The underlying growth (including realisations) in the investment portfolio was £5.2 million, which represents an increase of 13.6 per cent over the portfolio's opening value.

DIVIDENDS PAID IN THE YEAR

8.0p

Total Dividends

Total dividends paid during the year ended 31 December 2019 were 8.0 pence per ordinary share, which equates to 13.4 per cent of the opening net asset value per ordinary share. This comprises a special dividend of 5.0 pence per ordinary share and an interim dividend of 1.5 pence per ordinary share relating to the year ended 31 December 2019 and a final dividend for the year ended 31 December 2018 of 1.5 pence per ordinary share.

1. Total Return ("TR") and Investment Growth are defined as Alternative Performance Measures. The Board considers TR to be the primary measure of shareholder value and Investment Growth to be the key measure of the portfolio's performance.

TR is calculated as the total of current net asset value per ordinary share plus cumulative dividends paid since inception of the Company.

Investment Growth is calculated as the gain arising from the portfolio (see page 60) during the period as a percentage of the portfolio's value at the start of the period.

The Annual Report contains a number of Alternative Performance Measures ("APMs"). APMs are financial measures that are in addition to those defined or specified in the Company's financial reporting framework.

INVESTED

£11.4m

for 2019

Your Company completed seven new investments and five follow-on investments during the year ended 31 December 2019.

Five Year Summary

	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Income £000	1,076	1,684	1,413	1,937	1,953
Profit before and after taxation £000	4,536	4,454	2,069	1,412	4,132
Net assets attributable to ordinary shares £000	72,333	64,054	59,056	56,109	54,850
Profit per ordinary share	3.60p	4.17p	2.07p	1.51p	4.96p
Dividends per ordinary share paid in the year	8.0p	3.0p	3.0p	4.5p	4.5p
Net asset value per ordinary share	55.2p	59.9p	58.8p	59.7p	62.9p
Total Return per ordinary share ¹	121.7p	118.4p	114.3p	112.2p	110.9p
Increase in Total Return per ordinary share ¹	3.3p	4.1p	2.1p	1.3p	4.5p
Cumulative 3 year increase in Total Return per ordinary share ¹	9.5p				
Cumulative 5 year increase in Total Return per ordinary share ¹	15.3p				

1. These are Alternative Performance Measures. The Board considers Total Return to be the primary measure of shareholder value.

Financial Calendar

Results Announced	20 March 2020
Ex-dividend Date	9 April 2020
Record Date	14 April 2020
DRIS Election Date	28 April 2020
Annual General Meeting	16 June 2020
Dividend Paid	12 May 2020

Your Portfolio



Chairman's Statement

This is my first Chairman's statement since I took up the post after Richard Last stepped down from the role on 7 May 2019.

The Company is pleased to present its Strategic Report for the year ended 31 December 2019. The purpose of this report is to inform shareholders and help them to assess how the directors have performed in their duty to promote the success of the Company. This Report has been prepared by the Directors in accordance with section 414 of the Companies Act 2006.

I am pleased to report that your Company has made strong progress during the year which has seen net overall valuation gains across the portfolio as a whole delivering a 3.3 pence per ordinary share increase in Total Return, which equates to 5.5 per cent of the opening net asset value at 31 December 2018. Total Return is now 121.7 pence per ordinary share.

Your Company's portfolio delivered a strong performance over the year, generating a return of £5.19 million, 13.6 per cent over its opening value, of which £2.87 million was realised and £2.32 million unrealised. New and follow-on investments totalling £11.41 million have also been completed.

Realisations in the Year

Realisations of investments and loan repayments generated total proceeds of £7.08 million, a gain of £2.87 million over the opening carrying value. This included the partial realisation of the investment in **Eikon** in October 2019. The original investment of £2.0 million was completed in March 2018; the Company received capital proceeds of £4.21 million in October and December 2019 and income of £0.28 million over the life of the investment delivering a realised total return to date from this investment of £4.49 million, a multiple of 2.25x cost and a 62 per cent Internal Rate of Return in just 21 months. The Company retains £0.5 million in loan notes and a residual equity stake of 1 per cent. The Company also realised the remainder of its quoted portfolio during the year.

New Investments

This has been an active period for investments and during the year your Company completed seven new investments in aggregate of £10.05 million and five follow-on investments totalling £1.36 million.

The new investments were:

Investment	Sector
Elucidat	E-learning software
Frescobol Carioca	Luxury men's resort wear and lifestyle brand
Panintelligence	Business intelligence and analytics software
SharpCloud	Visualisation software
Tonkotsu	Ramen restaurants
Unbiased	Technology-enabled market-place connecting consumers to professionals
Wooshii	Disruptive video agency

Financial Results

The movement in **Total Return¹** is set out in the table below:

	Pence per ordinary share
Total Return¹	
Cumulative dividends to 31 December 2018	58.5
NAV at 31 December 2018	59.9
Total Return at 1 January 2019	118.4
Net underlying increase in portfolio	4.0
Net income after expenses	(0.5)
Issue/buy-back of shares	(0.2)
Increase in Total Return	3.3
Total Return at 31 December 2019	121.7

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

During the year your Board paid a final dividend of 1.5 pence per ordinary share in respect of the previous financial year ended 31 December 2018 and interim dividends of 6.5 pence per ordinary share in respect of the year ended 31 December 2019, bringing the cumulative dividends paid to 31 December 2019 to 66.5 pence per ordinary share. The interim dividends included a special dividend of 5.0 pence per ordinary share following three realisations that all occurred in December 2018.

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

	Pence per ordinary share	£000
NAV at 31 December 2018	59.9	64,054
Net underlying increase in portfolio	4.0	5,191
Net income after expenses	(0.5)	(655)
Issue/buy-back of new shares	(0.2)	13,042
	3.3	17,578
Dividends paid	(8.0)	(9,299)
	(4.7)	8,279
NAV at 31 December 2019	55.2	72,333
Cumulative dividends paid	66.5	
Total Return:	at 31 December 2019	121.7
	at 31 December 2018	118.4

The charts on page 12 of these financial statements show in greater detail the movement in Total Return and Net Asset Value over time.

The investments held at the beginning of the financial year, amounting to £38.10 million, delivered a return over the year of £5.19 million, equivalent to an increase in value for shareholders of 4.0 pence per ordinary share.

Within the current portfolio there were £5.70 million of valuation gains offset by £3.38 million of downward movements. There were strong performances from ACC Aviation Group Limited, Matillion Limited, Business Collaborator Limited, Traveltek Group Holdings Limited and RMS Group Holdings Limited, which in part were offset by the performances of Arcus Global Limited, Frescobol Carioca Ltd, Macro Art Holdings Limited and Deep-Secure Ltd.

The unquoted portfolio as at 31 December 2019 comprised £23.22 million (48 per cent of the total value) of investments made since the VCT rule changes in 2015. As previously reported these investments are generally in younger cash consumptive businesses, where the return will derive almost entirely from capital rather than income. As a consequence, this increased

level of new investments, coupled with exits from AIM and older investments, has seen the Company's income fall to £1.08 million, compared to £1.68 million in the previous financial year. Income is likely to reduce further as the proportion of new investments continues to grow and more of the investment return is derived from capital.

Dividends

Dividends paid in the year totalled 8.0 pence per ordinary share. These comprised an interim dividend of 5.0 pence per ordinary share for the year ended 31 December 2019, following the exits from Gill Marine, Mangar and GTK, that occurred at the end of the previous financial year, a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2018 and a second interim dividend of 1.5 pence per ordinary share for the year ended 31 December 2019. Cumulative dividends paid as at 31 December 2019 are now 66.5 pence per ordinary share.

The Board is pleased to announce the payment of an interim dividend for the year ending 31 December 2020 of 2.0 pence per ordinary share. This will be paid on 12 May 2020 to shareholders on the register at 14 April 2020. The ex-dividend date is 9 April 2020.

Chairman's Statement (continued)

SHAREHOLDER RELATIONS

Annual General Meeting 16 June 2020

The Annual General Meeting of the Company will be held at 12:00 noon on 16 June 2020 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 91.

Dividend Re-investment Scheme ("DRIS")

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

- 1 the dividends remain tax free;
- 2 any DRIS investment attracts income tax relief at the rate of 30 per cent; and
- 3 the investment is made at a 5 per cent discount to the last reported net asset value.

For the financial year ended 31 December 2019 out of dividends totalling £9.30 million, £2.02 million were re-invested in your Company by way of the DRIS.

Fundraising

The new share offer launched on 28 November 2018 with British Smaller Companies VCT plc closed on 11 February 2019 raising total gross proceeds across both VCTs of £35 million. The related allotment of 23,205,679 ordinary shares took place on 1 April 2019 following which your Company received net proceeds of £12.73 million.

Shareholder Relations

The electronic communications policy continues to be a great success, with 84 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.

Your 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.

In light of the developing situation regarding Covid-19, we have postponed the Investor Workshop originally scheduled for 19 May 2020 until later in the year. We will, of course, issue a new invitation to all shareholders at the appropriate time.

Board Composition

On 6 March 2019 Roger McDowell joined the Board and also took up the role of the Chairman of the Audit Committee, a post to which he brings considerable experience.

Regulatory Developments

Following continuous dialogue with HMRC there is now much greater clarification around the operation of the new VCT rules introduced in 2015 and as a result the majority of investments are now made on the basis of self-assuring their qualifying status under the VCT rules, subject to the receipt of professional advice.

This seems to have had a positive impact on investment levels, with your Company investing over £10 million in new opportunities in the year ended 31 December 2019.

Post Balance Sheet Events

On 10 March 2020 the Company realised its investment in Business Collaborator Limited for £5.08 million, compared to the valuation of £3.46 million at 31 December 2019, which is a strong uplift on the original cost of the holding of £1.34 million. The process began in earnest in January 2020 and the buyer was able to transact quickly, leading to completion in March.

Outlook

Although the General Election result has removed some domestic political uncertainty there is still some way to go before the UK's ongoing trading relationships with the world are agreed. The companies in the portfolio continue to prepare to either mitigate any impact of, or exploit any opportunities that may arise from, the UK's new position in the world.

Over recent weeks the spread of the Covid-19 virus to the UK has increased the overall impact on UK based businesses; whilst initially principally impacting supply chains and certain overseas customers the spread of the virus, and the response to it, is beginning to impact behaviours and movement of people. Some sectors have a greater exposure to these impacts, particularly travel, hospitality and leisure. These impacts, whilst likely to be short term, do mean that there might be increased cash needs in the period. In general, our objectives are to ensure that the investments are appropriately funded and we continue with this approach. In addition to the Government's recently announced broad range of initiatives to support SME's, your Company is very well positioned to be able to provide any additional funding should it be required. Notwithstanding that, we are working closely with all the businesses to address their short and medium term needs and also to take advantage of opportunities as they arise.

This past year has seen an increased level of new investment and lead indicators for 2020 suggest demand for growth capital remains healthy, albeit there may be a delay in conversion of the pipeline as a result of the impact of the Covid-19 virus. Your Company remains in a strong position to continue building out its portfolio.

The Board wishes to thank existing and new shareholders for making a success of the joint fundraising early in 2019 with British Smaller Companies VCT plc which has given your Company the resources to continue building the portfolio and deliver shareholder value.



Peter Waller
Chairman

20 March 2020

Objectives and Key Policies

The Company's objective is to maximise Total Return and provide investors with an attractive long-term tax free dividend yield 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, therefore, comprise mainly equity investments.

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

Borrowing

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

Co-investment

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

Asset Mix

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

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom being non-executive directors, can be found on page 49.

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. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 37.

Processes and Operations

The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out. Post investment the Investment Adviser intensively works with the businesses and management teams in which the Company is invested - monitoring progress, effecting change and where applicable redefining strategies with a view to maximising values through structured exit processes.

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

The Board regularly monitors the performance of the portfolio and the investment requirements set by the relevant VCT legislation. Reports are received from the Investment Adviser regarding the trading and financial position of each investee company and senior members of the Investment Adviser regularly attend the Company's Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT

regulations so that the Board can monitor that the Venture Capital Trust status of the Company is maintained and take corrective action if appropriate. 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 Investment Adviser on a regular basis.

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

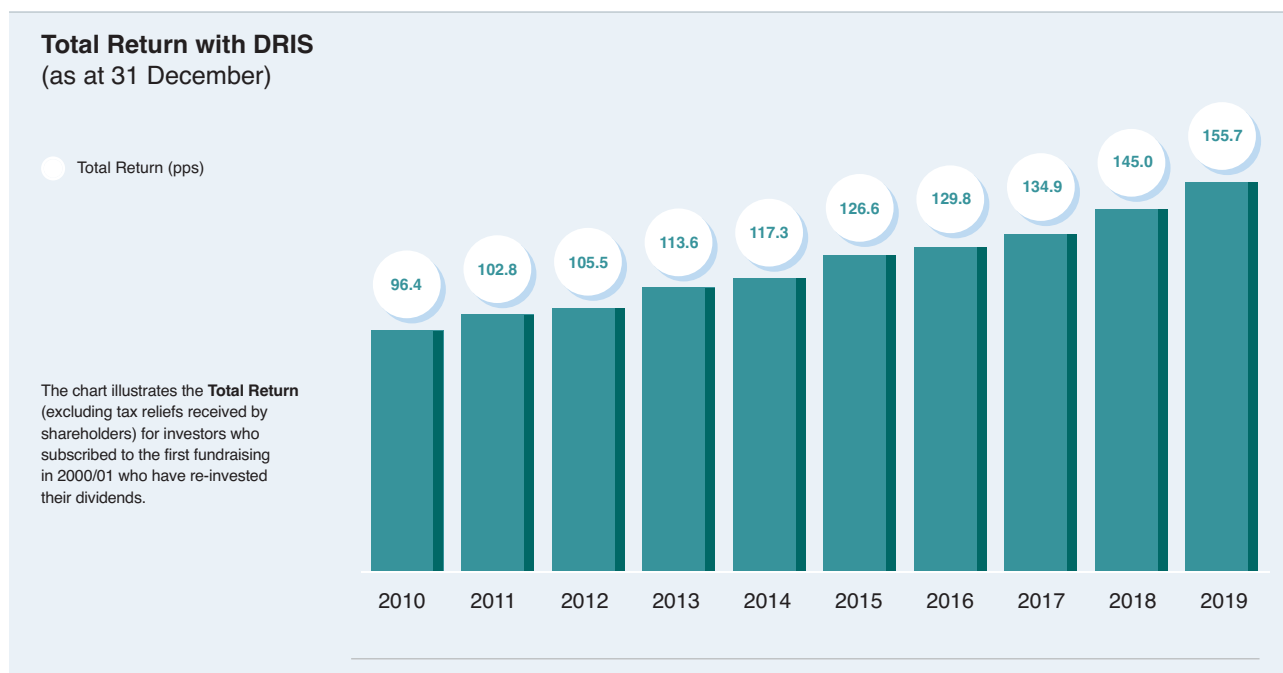
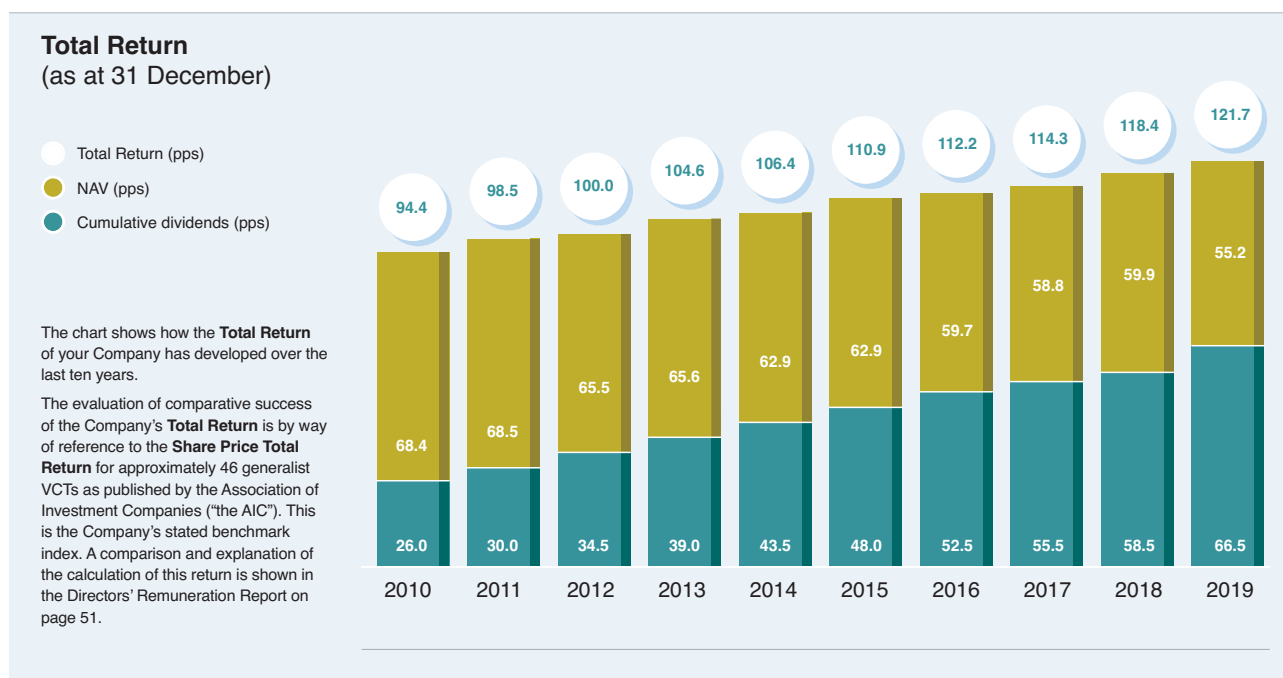
Performance Incentive

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

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

Key Performance Indicators

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.



Shareholder Returns

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

Year of issue	NAV at 31 December 2019 Pence	Cumulative dividends paid since fundraising Pence	Total Return to date ¹ Pence	Offer price ² Pence	IRR ³ %
2001	55.2	66.5	121.7	100.0	1.4%
2002	55.2	66.5	121.7	100.0	1.5%
2010	55.2	44.5	99.7	77.3	3.5%
2011	55.2	40.5	95.7	70.3	4.7%
2012	55.2	36.5	91.7	70.5	4.4%
2013	55.2	32.0	87.2	68.0	4.7%
2014	55.2	27.5	82.7	68.0	4.2%
2015	55.2	23.0	78.2	65.0	4.7%
2016	55.2	18.5	73.7	63.0	4.6%
2017	55.2	14.0	69.2	62.2	4.0%
2018	55.2	11.0	66.2	59.4	6.5%

Notes

- Total Return to date is cumulative dividends paid plus the 31 December 2019 net asset value in pence per ordinary share.
- The offer price for the relevant year excluding the benefit of income tax relief available to investors at the time of the offer.
- IRR is the unaudited annual rate of return that equates the offer price at the date of the original investment, with the value of subsequent dividends plus the 31 December 2019 net asset value per ordinary share. This excludes the benefit of any initial tax relief.

Expenses

Ongoing Charges

The Ongoing Charges figure, as calculated in line with the AIC recommended methodology, is an Alternative Performance Measure used by the Board to monitor expenses. This figure shows shareholders the costs of the recurring operational expenses expressed as a percentage of the average net asset value.

Whilst based on historical information this provides an indication of the likely level of costs that will be incurred in managing the Company in the future.

	Year to 31 December 2019 (%)	Year to 31 December 2018 (%)
Ongoing Charges figure	2.30	2.49

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

Compliance with VCT Legislative Tests

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

Key Performance Indicators (continued)

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

Income Test

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

Retained Income Test

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

Qualifying Holdings Test

At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in Qualifying Holdings of investee companies. (80 per cent for accounting periods commencing after 5 April 2019).

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

Eligible Shares Test

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

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

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

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

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

Maximum Single Investment Test

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

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

Further restrictions placed on VCTs are:

Dividends from Cancelled Share Premium

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

Cancelled share premium of £7.24 million remains undistributable until on or after 1 January 2020.

Other

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

- i) an aggregate limit of £12 million (or £20 million for Knowledge Intensive Companies) on the amount of State Aid Risk Finance investment a business can receive during its lifetime; and
- ii) no more than seven years can have elapsed since the first commercial sale achieved by the business (ten years in the case of a Knowledge Intensive Company), unless:
 - a. the business has previously received an investment from a source that has received state aid; or
 - b. the investment comprises more than 50 per cent of the average of the previous five years' turnover and the funds are to be used in the business to fund growth into new product markets and/or new geographies.

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

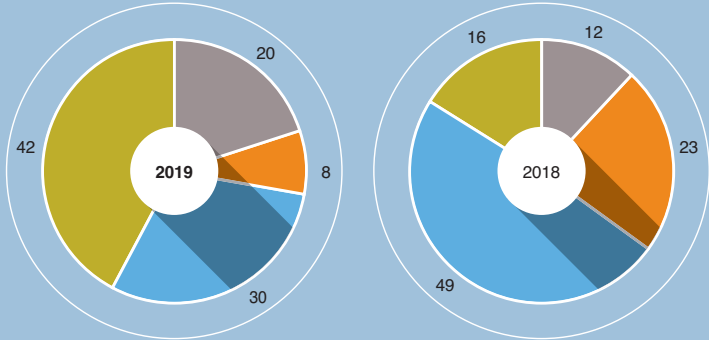
Portfolio Composition

Portfolio Structure

This illustrates the broad range of the investment portfolio with 42 per cent of the portfolio valuation being held for more than five years, whilst 74 per cent is held at cost or above.

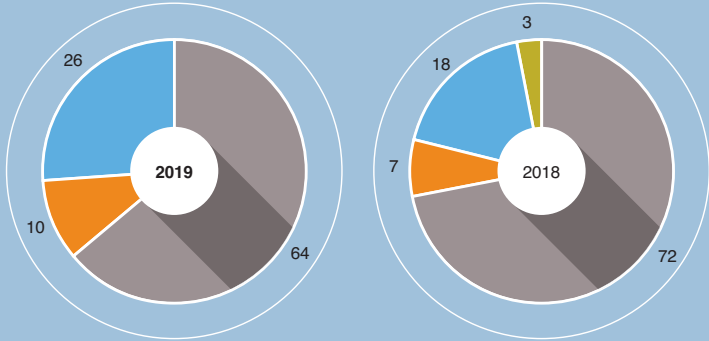
AGE OF INVESTMENTS (%)

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



VALUE COMPARED TO COST (%)

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



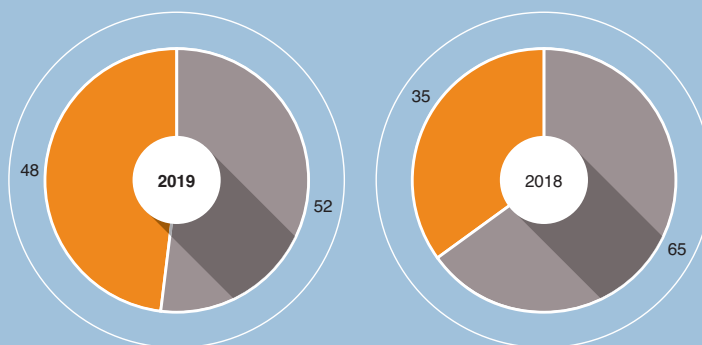
Portfolio Composition (continued)

Portfolio Diversity

Also included below is a profile of the investment portfolio by investments made before and after the VCT rule changes in 2015, and the break down by industry sector. 37 per cent of the portfolio's value is held in loans and preference shares although loans now account for only 9 per cent of the value.

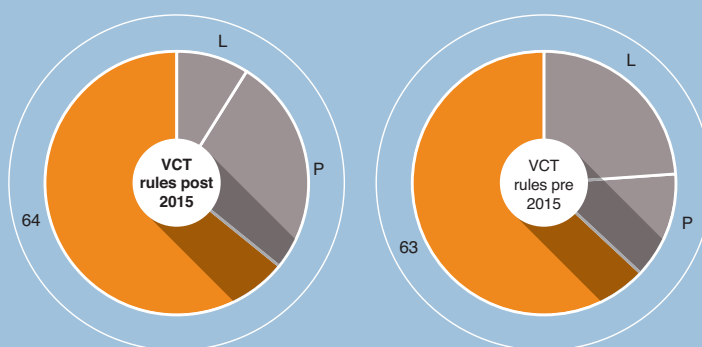
VCT RULES (%)

- Investments made prior to rule change in 2015
- Investments made following rule change in 2015



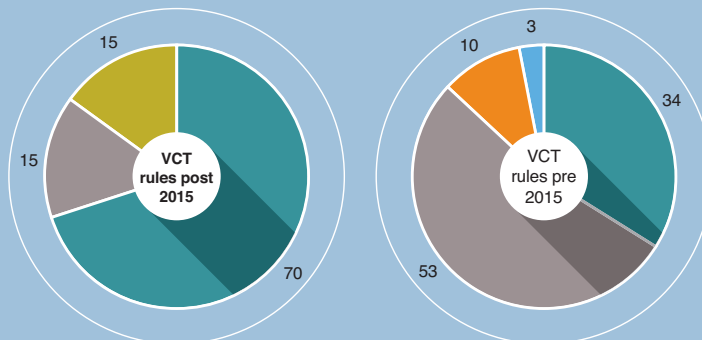
INVESTMENT INSTRUMENT (%)

- L Loan
 - P Preference shares
 - Equity
- }
 post-2015 - 36%
 pre-2015 - 37%



INDUSTRY SECTOR (%)

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



Investment Review

The portfolio delivered a strong performance in the year, with a return of £5.19 million on the opening value and income of £1.08 million.

Your Residual Portfolio

£47.9 million

Fair value of the portfolio
(2018: £38.1 million)

23

Number of portfolio companies with value of more than £0.5 million
(2018: 19)

£1.1 million

Income from the portfolio
(2018: £1.7 million)

£11.4 million

Level of investment
(2018: £5.6 million)

£5.2 million

Return from portfolio
(2018: £4.5 million)

The portfolio as a whole delivered a return of £5.19 million in the year, as shown in Table A below. A value gain of £2.32 million has come from the portfolio with strong performances from ACC Aviation Group Limited and Matillion Limited offset by the impact of difficult trading conditions at Frescobol Carioca Ltd and Arcus Global Limited. A gain of £2.87 million arose from the realisation of investments in the year, including £2.63 million from the partial realisation of Eikon Holdco Limited.

Table A
Investment portfolio

	£million	%
Gain in fair value	2.32	45
Gain on disposal over opening value including deferred proceeds	2.87	55
Total value movement	5.19	100

At 31 December 2019 the investment portfolio was valued at £47.91 million, representing 66.2 per cent of net assets (59.5 per cent at 31 December 2018). 2019 saw your Company raise funds of £12.73m; nonetheless, following a strong year of investment the level of cash as a proportion of net assets has reduced. Cash at 31 December 2019 of £23.93 million represented 33.1 per cent of net assets (39.2 per cent at 31 December 2018).

Investment Review (continued)

Other Significant Investment Movements

Investments

During the year ended 31 December 2019 the Company completed 12 investments totalling £11.41 million. This comprised seven new investments of £10.05 million and five follow-on investments of £1.36 million. The analysis of these investments is shown in Table B. The case study on page 23 gives more information on the investment in Tonkotsu Limited.

Table B
Investments

Date	Company	Investments made £million		Total
		New	Follow-on	
Mar-19	Frescobol Carioca Ltd	1.20	-	1.20
Mar-19	Biz2Mobile Limited	-	0.11	0.11
Mar/Oct-19	Ncam Technologies Limited	-	0.36	0.36
Mar-19	Immunobiology Limited	-	0.07	0.07
May-19	Elucidat Ltd	1.40	-	1.40
May-19	Wooshii Limited	1.44	-	1.44
May-19	Arcus Global Limited	-	0.75	0.75
Jun-19	Tonkotsu Limited	1.59	-	1.59
Oct-19	SharpCloud Software Limited	1.46	-	1.46
Nov-19	Panintelligence (via Paninsight Limited)	1.00	-	1.00
Dec-19	Unbiased EC1 Limited	1.96	-	1.96
Mar/Dec-19	Traveltek Group Holdings Limited	-	0.07	0.07
	Invested in the year	10.05	1.36	11.41
	Capitalised income			0.06
	Total additions in the year			11.47

The total of £11.41 million of investment is more than double that of the previous year (£5.65 million) demonstrating a strong demand for investment. It is also pleasing to see that there is a healthy pipeline of enquiries so far this year.

Disposal of Investments

During the year to 31 December 2019 the Company received proceeds from disposals, repayments of loans/preference shares and deferred consideration of £7.08 million. This included the very successful partial realisation of Eikon which produced capital proceeds of £4.21 million against realised cost of £1.50 million,

delivering a realised gain of £2.71 million of which £2.63 million was recognised in the year. The investment in Eikon was held at a valuation of £2.01 million at the beginning of the financial year and £2.34 million in June 2019 prior to the offer for your Company's investment. This was increased at September 2019 to £4.33 million once exclusivity was achieved. Total proceeds received plus the residual loan notes total £4.99 million.

The total value gain on disposal of investments was £2.87 million above the 31 December 2018 valuations as set out in Table C. The case study on page 22 gives some insight into the value created from the investment in Eikon Holdco Limited.

Table C
Disposal of Investments

	Net proceeds from sale of investments £million	Opening value 31 December 2018 £million	Gain on opening value £million
Unquoted investments	5.61	2.90	2.71
Quoted investments	1.22	1.08	0.14
Sale of portfolio investments	6.83	3.98	2.85
Deferred proceeds received	0.25	0.23	0.02
Total investment disposals	7.08	4.21	2.87

The quoted portfolio delivered proceeds of £1.22 million with a profit on cost of £0.47 million.

Further analysis of all investments sold in the year can be found in note 7 to the financial statements on page 78.

Portfolio Composition

As at 31 December 2019 the portfolio had a value of £47.91 million comprising wholly of unquoted investments, with the quoted portfolio having been realised in full during the year. An analysis of the

movements in the year is shown on page 75.

The portfolio remains well diversified, with 23 of 31 investments having a value greater than £0.5 million, compared to 19 a year earlier, with the single largest investment representing 9.1 per cent of the net asset value.

The charts on pages 15 and 16 of these financial statements show the composition of the portfolio as at 31 December 2019 by industry sector, age of investment, investment instrument and the valuation compared to cost. This demonstrates representation across a wide range of industry sectors.

Investment Review (continued)

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1 on pages 66 and 67, which takes account of current industry guidelines for the valuation of venture capital portfolios. The December 2018 update to the IPEVC Guidelines discourages the use of cost or price of a recent investment as a primary basis for valuation. As a result the policy is to use the recent round basis for the first quarter date immediately following the round, but then switch to a new primary basis for all subsequent periods. This change has in fact

had little impact on the portfolio's valuation as we have calibrated the valuation basis used to the recent investment round. We would only expect significant adjustments to recent investment values where an investment is significantly under- or over-performing. As at 31 December 2019 the value of investments falling into each valuation category is shown in Table D.

With continued investment in younger businesses that are investing for growth a higher proportion of valuations are based on a multiple of sales.

Table D
Valuation Policy

	2019	2018
	Valuation £million	% of portfolio by value
Sales multiple	20.51	43
Earnings multiple	20.07	42
Cost or price of recent investment, reviewed for change in fair value	5.07	10
Net assets, reviewed for change in fair value	2.26	5
Quoted investments at bid price	-	-
Total	47.91	100

Regulatory Changes

As noted by the Chairman above, the VCT industry is now more comfortable working within HMRC's guidelines on applying the 2015 VCT rule changes and the use of self-assurance, subject to professional advice, seems to have had an impact on the level of investment across the sector.

Impact

The Company's aim is to invest in smaller UK businesses to help them grow with the primary objective of delivering strong financial returns. However, your Company and the Investment Adviser are increasingly mindful of the impact, both positive and negative, that our activities and those of the businesses in the portfolio

have not just on the environment, but also their employees, communities and society at large.

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

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

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

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

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

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

Summary and Outlook

Your Company completed the successful part realisation of its investment in Eikon in the year after a short holding period and further disposals are expected in 2020. Investment levels were the highest since the new rules came into force and there is a strong pipeline of new opportunities.

There have been further additions to the Investment Adviser's team across the UK and additional resource is joining this year.



David Hall
YFM Private Equity Limited
20 March 2020

Case studies

Eikon



AMOUNT INVESTED BY THE COMPANY

£2.0 million

THE BUSINESS AT INVESTMENT

A leading end-to-end digital post-production services provider for the film broadcast industry

THE INVESTMENT

Backing a strong management team to expand into new markets, services and geographies

RATIONALE FOR THE DEAL

A profitable business driving significant growth, using new technology to disrupt an established industry

SINCE INVESTMENT

Partial realisation delivering a return of 2.25x cost in 21 months.



Tonkotsu



AMOUNT INVESTED BY THE COMPANY

£1.6 million

THE BUSINESS AT INVESTMENT

A distinctive brand with a focus on service and quality, operating 10 restaurants

THE INVESTMENT

Backing an established business to expand its footprint

RATIONALE FOR THE DEAL

A differentiated proposition with scope to expand

SINCE INVESTMENT

Opened 2 new restaurants and delivering strong like-for-like sales growth



Portfolio Summary

at 31 December 2019

Page No	Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 December 2019 £000	Proceeds to date £000	Realised & unrealised value to date* £000
Unquoted portfolio								
28	ACC Aviation Group Limited	Nov-14	Reigate	Business Services	145	6,606	1,233	7,839
29	Matillion Limited	Nov-16	Manchester	Software, IT & Telecommunications	1,778	6,491	-	6,491
29	Business Collaborator Limited	Nov-14	Reading	Software, IT & Telecommunications	1,340	3,458	-	3,458
29	Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,205	-	3,205
30	KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecommunications	1,500	2,486	500	2,986
	Investment companies	Apr-15	-	-	2,500	2,264	-	2,264
30	Unbiased EC1 Limited	Dec-19	London	Business Services	1,964	1,964	-	1,964
30	Springboard Research Holdings Limited	Oct-14	Milton Keynes	Business Services	1,883	1,747	-	1,747
31	Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,728	-	1,728
31	Deep-Secure Ltd	Dec-09	Malvern	Software, IT & Telecommunications	500	1,558	-	1,558
31	Elucidat Ltd	May-19	Brighton	Business Services	1,400	1,524	-	1,524
32	SharpCloud Software Limited	Oct-19	London	Software, IT & Telecommunications	1,460	1,460	-	1,460
32	Wooshii Limited	May-19	London	Business Services	1,440	1,459	-	1,459
	Arcus Global Limited	May-18	Cambridge	Software, IT & Telecommunications	1,950	1,249	-	1,249
	Ncam Technologies Limited	Mar-18	London	Software, IT & Telecommunications	1,341	1,196	-	1,196
	Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Software, IT & Telecommunications	1,309	1,134	-	1,134
	Friska Limited	Jul-17	Bristol	Retail & Brands	1,200	1,082	-	1,082
	Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software, IT & Telecommunications	1,163	1,068	-	1,068
	Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Software, IT & Telecommunications	1,000	1,000	-	1,000
	DisplayPlan Holdings Limited	Jan-12	Baldock	Business Services	70	800	820	1,620
	Biz2Mobile Limited	Oct-16	Oxfordshire	Software, IT & Telecommunications	1,105	774	-	774
	Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Industrial	720	648	41	689

Page No	Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 December 2019 £000	Proceeds to date £000	Realised & unrealised value to date* £000
	RMS Group Holdings Limited	Jul-07	Hull	Manufacturing & Industrial	70	611	349	960
	Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	594	-	594
	Eikon Holdco Limited	Mar-18	London	Software, IT & Telecommunications	500	500	4,209	4,709
	Other investments below £0.5 million				6,909	1,307	1,350	2,657
	Total unquoted investments				37,995	47,913	8,502	56,415
	Full disposals to date				33,359	-	45,434	45,434
	Total investment portfolio				71,354	47,913	53,936	101,849

* represents proceeds received to date plus the unrealised valuation at 31 December 2019.

Disposal History

to 31 December 2019

Name of Company	Date of initial investment	Date of Disposal	Industry sector	Cost £000	Capital proceeds to date £000	Capital return multiple x	Gains (losses) on disposal £000
Mangar Health Limited	Jan-14	Dec-18	Healthcare	1,640	3,675	2.24	2,035
GTK (Holdco) Limited	Oct-13	Dec-18	Manufacturing	1,150	3,669	3.19	2,519
Cozart plc	Jul-04	Oct-07	Healthcare	1,566	2,978	1.90	1,412
Gill Marine Holdings Limited	Sep-13	Dec-18	Retail & brands	1,870	2,844	1.52	974
Sarian Systems Limited	Dec-05	Apr-08	Telecoms	928	2,605	2.81	1,677
DxS Limited	Apr-04	Sep-09	Healthcare	163	2,515	15.43	2,352
Vibration Technology Limited	Mar-02	Sep-06	Industrial	1,061	2,328	2.19	1,267
Primal Pictures Limited	Dec-05	Aug-12	Medical instruments	961	2,258	2.35	1,297
Sirigen Group Limited	Jun-10	Aug-12	Medical technology	517	1,962	3.79	1,445
Amino Technologies plc	Sep-01	Nov-04	Electronics	415	1,872	4.51	1,457
Leengate Holdings Limited	Dec-13	Apr-19	Manufacturing	934	1,676	1.79	742
AB Dynamics plc	May-13	Jan-19	Manufacturing & Industrial	253	1,524	6.02	1,271
Waterfall Services Limited	Feb-07	Dec-14	Business services	483	1,422	2.94	939
Selima Holding Company Ltd	Mar-12	May-17	Software	300	1,406	4.69	1,106
Harvey Jones Holdings Limited	May-07	Aug-17	Retail & brands	1,193	1,310	1.10	117
Digital Healthcare Limited	Jun-05	Aug-13	Medical instruments	3,072	1,285	0.42	(1,787)
Callstream Group Limited	Sep-10	Mar-16	Software	500	1,050	2.10	550
Gooch & Housego plc	Jan-15	Oct-18	Manufacturing	397	884	2.23	487
Insider Technologies (Holdings) Limited	Aug-12	Oct-15	Software	780	773	0.99	(7)
Iomart Group plc	May-11	Aug-19	Software	198	690	3.48	492
Pressure Technologies plc	Jun-07	Jul-15	Industrial	302	657	2.18	355
The ART Technology Group Inc.	Apr-03	Oct-09	Software	275	638	2.32	363
Gamma Communications plc	Oct-14	Dec-18	Software	168	568	3.38	400
EKF Diagnostics Holdings plc	Jun-11	Dec-19	Healthcare	437	518	1.19	81
Brady plc	Dec-10	Apr-16	Software	603	484	0.80	(119)
Voalex plc	Dec-18	Jul-19	Manufacturing & Industrial	352	376	1.07	24
Tamesis Limited	Jul-01	Sep-07	Software	150	317	2.11	167
Optos plc	Dec-05	Jan-14	Healthcare	152	316	2.08	164
Tekton Group Limited	Dec-05	Dec-06	Software	103	296	2.87	193
Tikit Group plc	May-11	Jan-13	Software	198	283	1.43	85
Oxonica plc	May-02	Sep-09	Chemical	241	258	1.07	17
Group NBT plc	May-11	Nov-11	IT support	197	256	1.30	59
				21,559	43,693		22,134
Proceeds £0.25 million and below				11,800	1,741		(10,059)
Total				33,359	45,434		12,075

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

■ Investment made prior to 31 December 2003

Summary of Investment Portfolio Movement

Since 31 December 2018

Name of Company	Investment Valuation at 31 December 2018 £000	Disposal proceeds £000	Additions including capitalised interest, dividends and proceeds £000	Valuation gains including profits / (losses) on disposal £000	Investment valuation at 31 December 2019 £000
Unquoted portfolio					
ACC Aviation Group Limited	5,248	-	-	1,358	6,606
Business Collaborator Limited	2,284	-	-	1,174	3,458
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	2,992	-	-	213	3,205
KeTech Enterprises Limited	2,329	-	-	157	2,486
Investment Companies	2,309	-	-	(45)	2,264
Springboard Research Holdings Limited	1,674	-	59	14	1,747
Deep-Secure Ltd	2,028	-	-	(470)	1,558
Displayplan Holdings Limited	563	-	-	237	800
Wakefield Acoustics (via Malvar Engineering Limited)	770	-	-	(122)	648
RMS Group Holdings Limited	305	-	-	306	611
Macro Art Holdings Limited	682	-	-	(497)	185
Leengate Holdings Limited	1,240	(1,291)	-	51	-
Other investments below £0.5 million	1,738	(114)	67	(569)	1,122
Investments made prior to November 2015	24,162	(1,405)	126	1,807	24,690
Matillion Limited	5,180	-	-	1,311	6,491
Unbiased EC1 Limited	-	-	1,964	-	1,964
Tonkotsu Limited	-	-	1,592	136	1,728
Elucidat Limited	-	-	1,400	124	1,524
SharpCloud Software Limited	-	-	1,460	-	1,460
Wooshii Limited	-	-	1,440	19	1,459
Arcus Global Limited	1,200	-	750	(701)	1,249
Ncam Technologies Limited	733	-	364	99	1,196
Sipsynergy (via Hosted Network Services Ltd)	1,091	-	-	43	1,134
Friska Limited	1,208	-	-	(126)	1,082
Traveltek Group Holdings Limited	591	-	71	406	1,068
Panintelligence (via Paninsight Limited)	-	-	1,000	-	1,000
Biz2Mobile Limited	624	-	105	45	774
Frescobol Carioca Ltd	-	-	1,200	(606)	594
Eikon Holdco Limited	2,080	(4,209)	-	2,629	500
Other investments below £0.5 million	150	-	-	(150)	-
Investments made after November 2015	12,857	(4,209)	11,346	3,229	23,223
Total unquoted investments	37,019	(5,614)	11,472	5,036	47,913
Quoted portfolio					
Quoted investments £0.5 million and below	1,083	(1,221)	-	138	-
Total quoted investments	1,083	(1,221)	-	138	-
Total	38,102	(6,835)	11,472	5,174	47,913

Investee Company Information



Software, IT and Telecommunications



Business Services



Retail and Brands



Manufacturing and Industrial Services



Healthcare

Software, IT and Telecommunications	Business Services	Retail and Brands	Manufacturing and Industrial Services	Healthcare
<p>Fair Value £24.7m 2018: £19.5m</p>	<p>Fair Value £16.5m 2018: £11.7m</p>	<p>Fair Value £3.4m 2018: £1.5m</p>	<p>Fair Value £2.5m 2018: £4.1m</p>	<p>Fair Value £0.8m 2018: £1.3m</p>
<p>Number of companies 18 2018: 19</p>	<p>Number of companies 8 2018: 6</p>	<p>Number of companies 3 2018: 1.5*</p>	<p>Number of companies 5 2018: 8.5*</p>	<p>Number of companies 2 2018: 5</p>

* One company was represented in two industry types

Portfolio

This section describes the business of the top 12 companies in the portfolio in order of valuation at 31 December 2019.

ACC Aviation Group Limited Reigate

ACC Aviation is the market leader in airline-to-airline “wet lease” brokerage and other associated services. The company serves clients around the world in all aspects of aircraft charter, leasing, interiors and aviation support.

www.accaviation.com

Cost:	£145,000
Valuation:	£6,606,000
Date of initial investment:	November 2014
Equity held:	18.0%
Valuation basis:	Earnings multiple
Interest:	£nil (2018 £13,955)



Year ended 31 December	2018* £million	2017 £million
Sales	130.71	93.05
EBITA	9.25	3.63
Profit before tax	7.92	2.14
Retained profits	1.09	0.17
Net assets	17.65	3.21

* Internal accounts disclosed as the new holding company was not required to produce consolidated accounts for the full year



Matillion Limited

Manchester

Matillion is a leading provider of cloud-based data extraction and transformation tools. The company helps businesses utilise their data for insight and decision making and is headquartered in Manchester with offices in Denver, Seattle and New York.

www.matillion.com



Cost:	£1,778,000
Valuation:	£6,491,000
Date of initial investment:	November 2016
Equity held:	4.5%
Valuation basis:	Sales multiple

Year ended 31 December	2018 £million	2017 £million
Sales	6.50	3.04
LBITA	(4.75)	(1.70)
Loss before tax	(4.17)	(1.65)
Retained losses	(7.52)	(3.27)
Net assets	10.20	0.45

Business Collaborator Limited

Reading

Business Collaborator is a market leader in the rapidly growing Building Information Management (BIM) market, providing collaboration software for the construction and infrastructure industries. The investment was realised in March 2020 (see page 8).

www.groupbc.com



Cost:	£1,340,000
Valuation:	£3,458,000
Date of initial investment:	November 2014
Equity held:	19.4%
Valuation basis:	Sales multiple
Interest:	£117,400 (2018 £117,400)

Year ended 30 November	2018 £million	2017 £million
Sales	4.44	3.68
EBITA (LBITA)	0.29	(0.04)
Loss before tax	(0.59)	(0.87)
Retained losses	(1.09)	(0.80)
Net liabilities	(0.62)	(0.33)

Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)

Alloa

Intelligent Office UK is a leading provider of support services to the legal sector. The company has more than 900 employees in over 60 client sites across the UK, as well as four onshore shared services centres.

www.intelligentofficeuk.com



Cost:	£1,956,000
Valuation:	£3,205,000
Date of initial investment:	May 2014
Equity held:	17.8%
Valuation basis:	Earnings multiple
Interest:	£39,316 (2018 £39,316)
Dividends:	£65,114 (2018 £84,594)

Year ended 30 September	2018 £million	2017 £million
Sales	26.72	26.24
EBITA	1.13	1.30
Loss before tax	(1.16)	(0.69)
Retained losses	(3.15)	(1.78)
Net assets	2.38	7.03

KeTech Enterprises Limited

Nottingham



KeTech produces dynamic, real-time information systems for transport operators and passengers via a range of products including train safety and passenger information systems. Clients include mainline train operators and London Underground.

www.ketech.com

Cost:	£1,500,000
Valuation:	£2,486,000
Date of initial investment:	November 2015
Equity held:	15.9%
Valuation basis:	Earnings multiple
Interest:	£79,885 (2018 £102,762)
Dividends:	£48,300 (2018 £48,300)

Year ended 31 August	2019 £million	2018 £million
Sales	6.01	5.82
EBITA	1.06	1.09
Profit before tax	0.82	0.81
Retained profits	0.83	0.15
Net assets	0.92	0.24

**Unbiased EC1 Limited**

London



Unbiased is a technology-enabled marketplace that connects consumers to Independent Financial Advisers, Mortgage Brokers and Accountants. The company has a strong, well-established position and brand awareness in the IFA market with a high level of recurring subscription income from the thousands of professionals in their network.

www.unbiased.co.uk

Cost:	£1,964,000
Valuation:	£1,964,000
Date of initial investment:	December 2019
Equity held:	10.6%
Valuation basis:	Cost

Year ended 30 September	2018 £million	2017 £million
Sales	3.34	2.75
EBITA	0.20	0.30
Profit before tax	0.20	0.30
Retained losses	0.78	0.47
Net assets	0.78	0.47

Accounts for the trading company Unbiased Limited are shown

**Springboard Research Holdings Limited**

Milton Keynes



Springboard Research is a specialist provider of footfall and other performance data for the retail industry. A continually shifting retail environment means that retailers and landlords are seeking new ways of improving their competitive advantage. The company has seen a significant increase in sales in North America following the opening of its office in San Diego.

www.spring-board.info

Cost:	£1,883,000
Valuation:	£1,747,000
Date of initial investment:	October 2014
Equity held:	13.0%
Valuation basis:	Earnings multiple
Interest:	£83,568 (2018 £83,568)
Dividends:	£59,136 (2018 £59,136)

Year ended 31 December	2018 £million	2017 £million
Sales	5.35	5.03
EBITA	0.34	0.51
Loss before tax	(0.81)	(0.58)
Retained losses	(2.82)	(2.14)
Net assets	0.31	0.99



Tonkotsu Limited
London



Tonkotsu is a Japanese restaurant chain specialising in Ramen food, with a differentiated concept and a focus on service and quality. The company operates nine restaurants in London and one in Birmingham.

www.tonkotsu.co.uk



Cost: £1,592,000
Valuation: £1,728,000
Date of initial investment: June 2019
Equity held: 12.2%
Valuation basis: Earnings multiple

Year ended 31 December	2018 £million	2017 £million
Sales	6.03	5.13
LBITA	(0.89)	(0.36)
Loss before tax	(1.04)	(0.45)
Retained losses	(1.46)	(0.43)
Net liabilities	(1.09)	(0.06)

Deep-Secure Ltd
Malvern



Deep-Secure provides market-leading Content Threat Removal (CTR) technology which provides true protection against all known and unknown document-based malware via strong underlying technology owned entirely by the company.

www.deep-secure.com



Cost: £500,000
Valuation: £1,558,000
Date of initial investment: December 2009
Equity held: 8.0%
Valuation basis: Sales multiple
Interest: £54,000 (2018 £54,000)

Year ended 31 December	2018 £million	2017 £million
Sales	5.81	4.85
(LBITA) EBITA	(0.46)	0.99
Loss before tax	(1.96)	(0.30)
Retained losses	(4.98)	(4.29)
Net liabilities	(4.57)	(3.88)

Elucidat Ltd
Brighton



Elucidat provides a cloud based programme which allows businesses to write e-learning software for employees. The company has impressive customer retention and a client list including Tesco, Target and Walmart. It has recently opened an office in North Carolina.

www.elucidat.com



Cost: £1,400,000
Valuation: £1,524,000
Date of initial investment: May 2019
Equity held: 8.1%
Valuation basis: Sales multiple

Year ended 31 May	2019* £million	2018* £million
Sales	2.08	1.68
(LBITA) EBITA	(0.08)	0.19
(Loss) profit before tax	(0.84)	0.19
Retained assets	-	0.01
Net assets	3.53	0.08

* unaudited

SharpCloud Software Limited

London



SharpCloud is a leading visual business collaboration platform for Strategic Portfolio Management. The company has achieved rapid growth in recent years and has an impressive client list including blue chip companies and government organisations. It has recently opened an office in Philadelphia.

www.sharpcloud.com

Cost:	£1,460,000
Valuation:	£1,460,000
Date of initial investment:	October 2019
Equity held:	9.8%
Valuation basis:	Cost

Year ended 31 December	2018* £million	2017 £million
Sales	0.83	0.71
(LBITA) EBITA	(0.08)	0.07
(Loss) profit before tax	(0.13)	0.05
Retained losses	(0.13)	-
Net (liabilities) assets	(0.12)	-

* unaudited

Wooshii Limited

London



Wooshii is a video production agency using technology to manage a global network of creative professionals. The company offers clients the convenience and quality of a traditional video marketing agency and has an impressive client list including Coca Cola, Microsoft and Booking.com.

www.wooshiivideoagency.com

Cost:	£1,440,000
Valuation:	£1,459,000
Date of initial investment:	May 2019
Equity held:	8.0%
Valuation basis:	Sales multiple
Dividends:	£40,478

Year ended 31 March	2019* £million	2018* £million
Sales	1.49	1.45
LBITA	(0.42)	(0.13)
Loss before tax	(0.42)	(0.13)
Retained losses	(1.69)	(1.32)
Net liabilities	(0.14)	0.16

* Unaudited

Risk Factors

The Board carries out a regular and robust 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 applies rigorously the principles detailed in section 4: "Audit, Risk and Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018. Details of the Company's internal controls are contained in the Corporate Governance Internal Control section on pages 47 and 48 and further information on exposure to risks including those associated with financial instruments is given in note 16a of the financial statements.

Loss of Approval as a VCT

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

Mitigation – One of the Key Performance Indicators monitored by the Company is the compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" on pages 13 and 14.

Economic

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

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

Investment and Strategic

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

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

Risk Factors (continued)

Regulatory

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

Mitigation – The Investment Adviser and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on pages 47 and 48.

Reputational

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

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

Operational

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

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

Financial

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

Mitigation – The Company’s internal control and risk management processes are described on pages 47 and 48.

Market/Liquidity

Risk – Lack of liquidity in both the venture capital and public markets. Investment in unquoted and AIM quoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM or on the main market does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Mitigation – Overall liquidity risks are monitored on an ongoing basis by the Investment Adviser and on a quarterly basis by the Board.

Other Matters

Section 172 Statement

This section sets out your Company's Section 172 Statement and should be read in conjunction with the other contents of the Strategic Report on pages 6 to 37.

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

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

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

Key stakeholders

Investors

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

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

At the start of the year the Board agreed a revised Investment Adviser fee which pays one per cent per annum on surplus cash. On 1 April 2019, as set out under the heading "Fundraising" on page 8, the Company raised a substantial amount of new funds and in the light of this the Board have decided there was no need for a further fundraising in the 2019/20 tax year. During the year the Board decided to maintain the existing arrangements for dividends, share buy-backs and the dividend re-investment scheme.

Investment Adviser

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

As noted above a revised Investment Adviser fee was agreed with the Investment Adviser. In return for this as set out in note 3 on page 72 the Subscription Rights Agreement relating to the incentive fee was revised such that the recipients can elect to receive the incentive in cash or shares.

Portfolio Companies

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

There were seven additions to the portfolio and further support was also provided to the existing portfolio through a number of follow-on investments. The Company also completed the exit of its AIM portfolio and there were two major disposals in the year; Leengate Holdings Limited and Eikon Holdco Limited. Leengate had been held since 2013 and was purchased by its management team. An unsolicited offer was received for Eikon and, while the intention had been to hold the investment for longer, it was felt that the opportunity to make a partial realisation, while retaining an interest in the business, was the best outcome for all stakeholders.

Employees

The Company has no employees. Following the appointment of Mr R S McDowell as a non-executive director on 6 March 2019 the Board was composed of four male non-executive directors, though this reduced to the previous level of three following the retirement of Mr R Last at the 2019 Annual General Meeting. 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 Investment Adviser, YFM Private Equity Limited, who recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies to reduce any damage that might be caused by its activities. Initiatives of the Investment Adviser designed to minimise its and the Company's impact on the environment include recycling and reducing energy consumption.

More details of the work that the Investment Adviser has done in this area are set out on page 20 and 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 Investment Adviser and any other service providers must not promise, offer, give, request, agree to receive or accept financial or other advantage in return for favourable treatment, to influence a business outcome or gain any business advantage on behalf of the Company or encourage others to do so;

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

The Strategic Report on pages 6 to 37 is approved by order of the Board.



Peter Waller
Chairman

20 March 2020

Directors



Peter Charles Waller *Chairman*

Peter Waller (appointed 1 November 2010) is an experienced chairman and director with extensive UK and international executive experience in the IT technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He was appointed as Chair of the Company in May 2019. Peter is also Chair of KeyPoint Technologies (UK) Limited and the Director and Founder of Turnberry Management Company Limited. Over the past two decades Peter has worked as a board member with multiple private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies.



Robert Martin Pettigrew

Robert Pettigrew (appointed 16 November 2000) has more than 30 years' experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Science Group plc) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is currently an investor-director and non-executive chairman of 4 T 2 Sensors Limited and Pervasid Limited.



Roger Steven McDowell

Roger McDowell (appointed 6 March 2019) has considerable experience as a chairman and non-executive director of a wide range of technology, business services and manufacturing businesses. Following the flotation of his family's business and subsequent trade sale, he began his plural career in 2000, when he took board roles in three private equity backed technology businesses. He is chairman of Hargreaves Services Plc and Avingtrans Plc and non-executive director of Tribal Group Plc, Proteome Sciences Plc, Augean Plc and Brand Architekts Plc. Roger is Chair of the audit committee at Tribal and Proteome Sciences.

Secretary

The City Partnership (UK) Limited
110 George Street
Edinburgh
EH2 4LH

Registered No: SC269164

Registered Office of the Company

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

Registered No:

04084003

Directors' Report

For the year ended 31 December 2019

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2019.

Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.

The Company has its primary, and sole, listing on the London Stock Exchange.

The principal activity of the Company is the making of long term equity and loan investments, mainly in unquoted businesses.

The Company operates as a venture capital trust ("VCT") and has been approved by HM Revenue & Customs as an authorised venture capital trust under Chapter 3 Part 6 of the Income Tax Act 2007. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 Part 6 of the Income Tax Act 2007.

Business Performance and Future Prospects

A detailed and fair review of the Company's business, its development, its financial performance during and at the end of the financial year, and its future prospects is set out in the Strategic Report on pages 6 to 37. The principal risks and uncertainties the Company faces are detailed on pages 33 to 35.

Results and Dividends

The Statement of Comprehensive Income is set out on page 60. The profit before and after taxation for the year amounted to £4,536,000 (2018: £4,454,000).

During the year the Company paid a total of £9,299,000 (2018: £3,225,000) in dividends totalling 8.0 pence per ordinary share (2018: 3.0 pence). A detailed review can be found in note 5 on page 73.

The directors have announced an interim dividend of 2.0 pence per ordinary share for the year ending 31 December 2020.

The net asset value per ordinary share at 31 December 2019 was 55.2 pence (2018: 59.9 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 62.

Going Concern

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations for at least 12 months from the date of this report. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the financial statements.

Statement on Long-term Viability

The AIC's Code of Corporate Governance requires the Board to assess the Company's viability over an appropriate period. The directors consider a period of three years to be appropriate to assess the Company's viability because the Company would lose its status as a VCT if it does not invest newly raised money within this period. Taking into account the Company's current position and principal risks, the directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over that period.

In making their assessment the directors have taken into account the emerging and principal risks and their mitigation identified in the strategic report on pages 33 to 35, the nature of the Company's business, including its substantial reserves of cash, its recent fundraising, the potential of its venture capital portfolio to generate future income and capital proceeds, and the ability of the directors to minimise the level of cash outflows should this be necessary.

Corporate Governance

The statement on corporate governance set out on pages 42 to 48 is included in the Directors' Report by reference.

Directors' and Officers' Liability Insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors indemnifying them against certain liabilities which may be incurred by any of them in relation to the Company.

Directors' Report (continued)

Provision of Information to the External Auditor

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and that each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Capital

As shown in note 11 of the financial statements, the Company has only one class of share, being ordinary shares of 10 pence each.

Buy-Back and Issue of Ordinary Shares

In accordance with the Company's stated buy-back policy the Company purchased during the year (under the authority granted by the shareholders at a general meeting held on 7 May 2019) 3,150,531 ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration of £1,631,000. These shares are held in treasury.

Under the existing authority, which expires on the conclusion of the Company's Annual General meeting in 2022 or on 7 May 2022, whichever is the later, the Company has the power to purchase shares up to 14.99 per cent of the Company's ordinary share capital as at 22 March 2019, being 16,379,154 ordinary shares.

During the year to 31 December 2019 a total of 27,232,257 ordinary shares were issued. As a result of the offer for subscription 23,205,679 shares were issued, while 4,026,578 were issued under the Company's DRIS. Further details are given in note 11 on page 84.

The directors have unconditional authority to allot shares in the Company or to grant rights to subscribe for or to convert any security into ordinary shares in the Company expiring on 16 June 2020 up to an aggregate nominal amount of £4,000,000.

This authority will be replaced by a new authority to issue shares up to an aggregate nominal amount of £5,000,000 at this year's Annual General Meeting.

In addition, the directors have authority to allot shares and waive pre-emption rights in the Company in connection with the Company's DRIS up to an aggregate nominal amount of £2,000,000 until 7 May 2024.

Buy-back of Shares

Date	Number of Ordinary shares of 10p bought back	Percentage of issued share capital at that date	Consideration paid per ordinary share (pence)
26 March 2019	808,196	0.74%	52.66
27 June 2019	1,007,335	0.76%	51.33
26 September 2019	235,000	0.18%	49.81
18 December 2019	1,100,000	0.83%	51.52

Capital Disclosures

The following information has been disclosed in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended):

- > the Company's capital structure is summarised in note 11 to the financial statements. Each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- > there are no securities carrying special rights with regard to the control of the Company;
- > the Company does not have an employee share scheme;
- > the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;

- > with the exception of the Investment Adviser's Incentive Agreement, there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- > there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Environment

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any emissions producing sources including those within its underlying investment portfolio under part 7 of schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

Directors and their Interests

The directors of the Company at 31 December 2019, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 49 to 51.

Substantial Shareholdings

The directors are not aware of any substantial shareholdings representing 3 per cent or more of the Company's issued share capital as at 31 December 2019 and the date of this report.

Independent Auditor

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

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

Financial Instruments

Details of the financial instruments held by the Company and the risks associated with them are set out on pages 85 to 90 and this information is accordingly incorporated into the Directors' Report by reference.

Employment Policies

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

Events after the Balance Sheet Date

On 10 March 2020 the Company realised its investment in Business Collaborator Limited for £5.08 million, compared to the valuation of £3.46 million at 31 December 2019, which is a strong uplift on the original cost of the holding of £1.34 million. The process began in earnest in January 2020 and the buyer was able to transact quickly, leading to completion in March.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 91 to 93 of these financial statements.

Resolution 8 is proposed to ensure the directors retain the authority to allot shares in the Company until the later of 6 August 2020 or the date of the 2021 Annual General Meeting up to an aggregate nominal amount of £5,000,000 (representing approximately 38.1 per cent of the issued ordinary share capital of the Company as at 20 March 2020, excluding treasury shares).

Special Resolution

Resolution 9 is proposed to empower the directors to allot shares under the authority granted by resolution 8 and to sell treasury shares without regard to any rights of pre-emption on the part of the existing shareholders.

This report was approved by the Board on 20 March 2020 and signed on its behalf by



Peter Waller
Chairman

British Smaller Companies VCT2 plc
Registered number 04084003

Corporate Governance

The Board is committed to the principle and application of sound corporate governance and confirms that the Company has taken steps, appropriate to a venture capital trust and relevant to its size and operational complexity, to comply with the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2019 ("AIC Code") available on the AIC website www.theaic.co.uk.

The AIC Code addresses all the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council ("FRC"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The UK Corporate Governance Code can be found on the website of the FRC at www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC will provide better information to shareholders.

The Company is committed to maintaining the highest standards of corporate governance and during the year to 31 December 2019 complied with the recommendations of the AIC Code and relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director, those relating to the establishment of an independent Remuneration Committee, the presumption concerning the Chairman's independence and the need for an internal audit function. For reasons set out in the AIC Code, and in the introduction to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of British Smaller Companies VCT2 plc, which is an externally

advised venture capital trust. The Company has therefore not reported further in respect of these provisions.

In accordance with The UK Corporate Governance Code issued in July 2018 Provision 24 the Board should establish an Audit Committee of at least three independent non-executive directors and the Chairman of the Company should not be a member of this Committee. As permitted by Provision 29 of the AIC Code the Chairman of the Company should not chair the Audit Committee but can be a member if they were independent on appointment. The Company has not complied with this criteria for the whole of the year as the chairman of the Audit Committee was Mr R Last until his resignation as a director on 7 May 2019. Given the size and nature of the Company and the significant experience of Mr R Last at performing this duty it was felt that adequate controls were in place to ensure the Audit Committee remained independent. Mr R S McDowell was appointed as Chairman of the Audit Committee on 7 May 2019 and the Company has complied with the above criteria since that date.

Role of the Board

An investment advisory agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes monitoring of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance, risk control and custody arrangements.

The Board meets at least quarterly and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access

that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

Board Composition

The Board consists of three non-executive directors, all of whom are regarded by the Board as independent and also as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although The UK Corporate Governance Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company, are satisfied that Mr R Last until his resignation on 7 May 2019 and Mr P Waller from his appointment on 7 May 2019 fulfil the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 38.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

Boardroom Diversity

The Board is committed to ensuring that the Company is run in the most effective manner. Consequently the Board monitors the diversity of all directors to ensure an

appropriate level of experience and qualification.

The Board believes in the value and importance of diversity in the boardroom but does not consider that it is appropriate or in the best interests of the Company and its shareholders to set prescriptive targets for gender or nationality on the Board.

Diversity of thought, experience and approach are all important and the directors will always seek to appoint on merit against objective criteria.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, it is the Board's policy that a director's appointment will run for a term of one year until the next Annual General Meeting. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek a further term. The Board, when making a recommendation, will take into account the ongoing requirements of The UK Corporate Governance Code, including the need to refresh the Board and its Committees.

The Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company, in particular with regards to investment appraisal and investment risk management.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting. There is no set minimum notice period for Mr R M Pettigrew, though Mr P C Waller's and Mr R S McDowell's appointment are terminable by either the director or the Company on three months' notice.

The directors recommend the re-election of Mr P C Waller, Mr R M Pettigrew, and Mr R S McDowell at this year's Annual General Meeting, because of their commitment, experience and contribution to the Company.

Corporate Governance (continued)

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number and function of the meetings attended by each director.

During the year there were nine formal Board meetings, three Audit Committee meetings, two Allotment Committee meetings, one Nominations Committee meeting and one General meeting. The directors met via telephone and electronic conferences on 39 other occasions.

Meetings attended

Director	Mr R Last*	Mr P C Waller	Mr R M Pettigrew	Mr R S McDowell**	Total
Board meetings	4	9	8	8	9
Audit Committee	1	3	3	3	3
Allotment Committee	-	-	2	-	2
Nominations Committee	1	1	1	1	1
Telephone and electronic conferences	21	38	39	32	39
General meeting	1	1	-	1	1
Total	28	52	53	45	55

* up to date of resignation

** from date of appointment

As set out on page 46 the quorum for the Allotment Committee is one director.

In addition there were three DRIS allotment meetings which the directors were not required to attend, but which were attended by the Company Secretary.

Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and its directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to VCTs.

The performance of the Board has been evaluated in respect of the financial year ended 31 December 2019. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provisions of The UK Corporate Governance Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of their contribution. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

The Chairman has confirmed that the performance of the other directors being proposed for re-election continues to be effective and that they continue to show commitment to the role. The independent directors have similarly appraised the performance of the Chairman. They considered that the performance of Mr P Waller continues to be effective.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 49 to 51.

The Directors' Remuneration Report on page 49 includes details on how directors' remuneration is set.

Audit Committee

The Audit Committee consists of Mr R S McDowell, Mr R M Pettigrew and Mr P C Waller and meets at least three times each year. The directors consider that it is currently appropriate that the Chairman of the Committee should be Mr R S McDowell due to his experience in the role. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee, and that the Chair of the Committee meets the requirements of The UK Corporate Governance Code as to recent and relevant financial experience.

The Audit Committee's terms of reference include the following roles and responsibilities:

- > monitoring and making recommendations to the Board in relation to the Company's published financial statements (including in relation to the valuation of the Company's unquoted investments) and other formal announcements relating to the Company's financial performance;

- > monitoring and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- > annually considering the need for an internal audit function;
- > making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- > reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- > monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- > ensuring that the Investment Adviser has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

It reviews the terms of the investment advisory agreement and examines the effectiveness of the Company's internal control and risk management systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor.

The directors' statement on the Company's system of internal control is set out on pages 47 and 48.

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting, and also on the Company's website at www.bscfunds.com.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However the Committee considers annually whether there is a need for such a function and, if so, would recommend this to the Board.

During the year ended 31 December 2019 the Audit Committee discharged its responsibilities by:

- > reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- > reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks;

- > reviewing YFM Private Equity Limited's statement of internal controls operated in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- > reviewing reports on the effectiveness of YFM Private Equity Limited's compliance procedures;
- > reviewing the appropriateness of the Company's accounting policies;
- > reviewing the Company's draft annual financial statements, half yearly results statement and interim management statements prior to Board approval, including the proposed fair value of investments as determined by the directors;
- > reviewing the external auditor's detailed reports to the Committee on the annual financial statements; and
- > recommending to the Board and shareholders the re-appointment of BDO LLP as the Company's external auditor.

The key areas of risk that have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company are as follows:

- > valuation of unquoted investments; and
- > compliance with HM Revenue & Customs' conditions for maintenance of approved venture capital trust status.

These issues were discussed with the Investment Adviser and the auditor at the pre-year-end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments

The Audit Committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they were appropriate. The Investment Adviser confirmed to the Audit Committee that the investment valuations had been carried out consistently with prior periods and in accordance with the published industry guidelines, taking account of the latest available information about investee companies and current market data and a report from the auditor on the audit including key audit findings in respect of the valuations was discussed.

Corporate Governance (continued)

Venture capital trust status

The Investment Adviser confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by the Company's advisers.

Financial statements

The Investment Adviser confirmed to the Audit Committee that it was not aware of any material unadjusted misstatements. Having reviewed the reports received from the Investment Adviser and the auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities and revenue recognition have been properly appraised and are sufficiently robust. The Committee considers that BDO LLP has carried out its duties as auditor in a diligent and professional manner.

Relationship with the Auditor

As part of the review of audit effectiveness and independence, BDO LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. BDO LLP was appointed as the result of a competitive tendering process in 2016. As a consequence, this is their fourth year of office as auditor; in accordance with professional guidelines the engagement partner will be rotated after at most five years and the current partner has served for three.

Having completed its review the Audit Committee is satisfied that BDO LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report and its recommendation for reappointment is endorsed by the Board. No non-audit services were provided by BDO LLP during the year.

Nominations Committee

The Company has a Nominations Committee which consists of Mr R S McDowell, Mr R M Pettigrew and Mr P C Waller, all of whom are considered by the Board to be independent of the Investment Adviser. The Chairman of the Board acts as Chairman of the Committee.

In considering appointments to the Board, the Nominations Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Meetings are held as and when required. There was one Nominations Committee meeting during the year.

The Board considers succession planning at least annually, especially in relation to the positions of the Chairman and the Chairman of the Audit Committee.

Investment Committee

The Board has determined that, due to the investment procedures currently in place, in its opinion there is no role for an independent Investment Committee.

Allotment Committee

The Company has an Allotment Committee which consists of the directors who are considered by the Board to be independent of the Investment Adviser. The quorum for Committee meetings is one director, unless otherwise determined by the Board. In addition the Company Secretary has an authority to allot shares under the DRIS.

The Committee considers and, if appropriate, authorises the allotment of shares. The Committee ensures that the total number of shares to be issued does not exceed the authority given by the shareholders. There are no written terms of reference.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance, and reports formally to shareholders at least twice a year by way of the Annual Report and the Interim Report. This is supplemented by the daily publication of the Company's share price and the publication for the two quarters of the year where an Annual or Interim Report is not normally issued (31 March and 30 September), through the London Stock Exchange, of the net asset value of the Company together with a factsheet detailing developments for the Company in that quarter.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the

Investment Adviser are available in person to meet with and answer shareholders' questions. In addition representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry developments, and which give shareholders a further opportunity to meet members of the Board and chief executives or chairmen of some of the investee companies. During the year the Company's Investment Adviser has held regular discussions with shareholders. The directors are made fully aware of shareholders' views. The Chairman and directors make themselves available, as and when required, to address shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 94.

The Company's Annual Report is published in time to give shareholders at least 21 clear days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 94. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

Internal Control and Risk Management

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014 and 7 August 2015, certain functions of the Company have been sub-contracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- > a clearly defined investment strategy for the Investment Adviser to the Company;
- > all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Investment Adviser;
- > regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- > regular reviews of compliance with the VCT regulations to retain its status; and
- > the Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by

the Investment Adviser with a review of performance. Additional information is supplied on request.

The Board confirms the procedures to implement the guidance detailed in Principle O of the AIC Code were in place throughout the year ended 31 December 2019 and up to the date of this report. A detailed review of the risks faced by the Company and the techniques used to mitigate these risks can be found in the Strategic Report on pages 33 to 35.

The Board acknowledges that it is responsible for overseeing the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full robust risk and control assessment takes place no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

In particular the Board, together with the Audit Committee, is responsible for overseeing and reviewing internal controls concerning financial reporting. In addition to those controls sub-contracted as listed above the following controls have been in place throughout the year:

- > a robust system of internal control is maintained by the Investment Adviser over the preparation and reconciliation of investment portfolio valuations;
- > monthly reconciliation of assets held as cash or on fixed term deposit;
- > independent review of the valuations of portfolio investments by the Board (quarterly);
- > the Audit Committee review of financial reporting and compliance (as set out on pages 44 to 46);

Corporate Governance (continued)

- > the Board reviews financial information including the Annual Report, Interim Report and interim management statements prior to their external communication; and
- > the Board reviews the financial information in any prospectus or offer for subscription issued by the Company in connection with the issue of new share capital.

Following the FCA's registration of the Company as a Small Registered Alternative Investment Fund Manager in 2014 the Company holds its own investments. All investments made for the accounts of and monies received for the Company will be deposited in the name of the Company or will be held by a custodian or the Company's solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the Company and will be held in the Company's name or forwarded directly to the custodian or the Company's solicitors. No third party custodian has been appointed. The Company will take legal ownership of its assets. The directors carry out independent reviews of the Company's custody records.

The Board has reviewed the effectiveness of the Company's systems of internal control and risk management for the year and up to the date of this Report. The Board is of the opinion that the Company's systems of internal, financial, and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company, and the Board has a reasonable expectation that the Company will continue in operational existence for the foreseeable future.

Conflicts of Interest

The directors have declared any conflicts or potential conflicts of interest to the Board which has the authority to authorise such situations if appropriate. The Company Secretary maintains the Register of Directors' Interests which is reviewed quarterly by the Board, when changes are notified, and the directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest which have been approved by the Board do not take part in discussions or decisions which relate to any of their conflicts.

Corporate Governance in relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Investment Adviser whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which its clients invest. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of an investee company performance in accordance with best practice in the private equity sector.

Co-Investment

Typically the Company invests alongside other venture capital funds and other private equity funds advised or managed by the Investment Adviser, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Strategic Report. Co-investments are detailed in note 7 to the financial statements on pages 80 to 82.

Management

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

This report was approved by the Board on 20 March 2020 and signed on its behalf by



Peter Waller
Chairman

British Smaller Companies VCT2 plc
Registered number 04084003

Directors' Remuneration Report

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

The law requires the Company's auditor, BDO LLP, to audit certain information included in this report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the Independent Auditor's Report on pages 53 to 59.

Directors' Remuneration Policy

This statement of the Directors' Remuneration Policy took effect following approval by shareholders at the Annual General Meeting held on 10 May 2017. A resolution to approve the Directors' Remuneration Policy will be put to shareholders every three years.

Following the appointment of Mr R S McDowell on 6 March 2019 the Board comprised four directors, all of whom are non-executive, though this reduced to the previous level of three non-executive directors following the retirement of Mr R Last at this year's Annual General meeting. The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee.

The Board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and nature and this is used as a reference when setting directors' remuneration. Shareholders' views in respect of the directors' remuneration are communicated at the Company's AGM and are taken into consideration in formulating the Directors Remuneration Policy.

At the last Annual General Meeting over 95 per cent of shareholders who exercised their voting rights voted for the resolution approving the Directors' Remuneration Report, showing significant shareholder approval.

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, to be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the directors needed to oversee properly the Company and to reflect the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs.

It is not considered appropriate that directors' remuneration should be performance-related, and as such the directors are not eligible for bonuses, share options, pension benefits, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the Company.

It is the Board's policy that directors do not have service contracts, but new directors are provided with a letter of appointment. The terms of directors' appointments provide that directors should retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter, it has been agreed that all directors will offer themselves for re-election on an annual basis. There is no notice period other than for Mr P C Waller and Mr R S McDowell, whose appointments are terminable by each director or the Company on three months' notice. Any director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services. There were no payments for loss of office made during the period.

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

Brief biographical notes on the directors are given on page 38.

Statement by the Chairman of the Nominations Committee

The directors' fees payable by the Company have been fixed from 1 April 2019 by the Board at £40,000 per annum for the Chairman and £24,000 per annum for the other directors. In accordance with the Directors' Remuneration Policy the directors have agreed that they should be reviewed again in May 2020. The cap on aggregate fees is £100,000, which provides the flexibility to recruit new directors in the future.

Directors' Remuneration Report (continued)

Directors' Remuneration for the year ended 31 December 2019 (audited)

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

There are no executive directors (2018: none).

Table A
Total fees paid (audited)

	2019 £	2018 £
P C Waller	34,626	23,125
R M Pettigrew	24,000	23,125
R S McDowell	19,661	-
R Last	14,103	38,500
	92,390	84,750

The 2019 figures include the first full period of the fee increase effective from 1 April 2018. The annual salaries from that date were: R Last - £40,000, R M Pettigrew £24,000 and P Waller £24,000. The annual salary of P Waller from the date of his appointment as Chairman is £40,000 and the annual salary of R S McDowell from the date of his appointment as a non-executive director is £24,000.

Directors and their Interests (audited)

The directors of the Company at 31 December 2019 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as shown in Table B:

Table B
Directors and their interests (audited)

	Number of ordinary shares at:		Percentage of voting rights:	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
P C Waller	44,439	35,560	0.03%	0.03%
R M Pettigrew	89,212	80,333	0.07%	0.08%
R S McDowell	266,391	n/a	0.20%	n/a
R Last	n/a	134,632	n/a	0.13%

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

The Company has not set out any formal requirement or guidelines concerning their ownership of shares in the Company.

Relative Importance of Spend on Pay

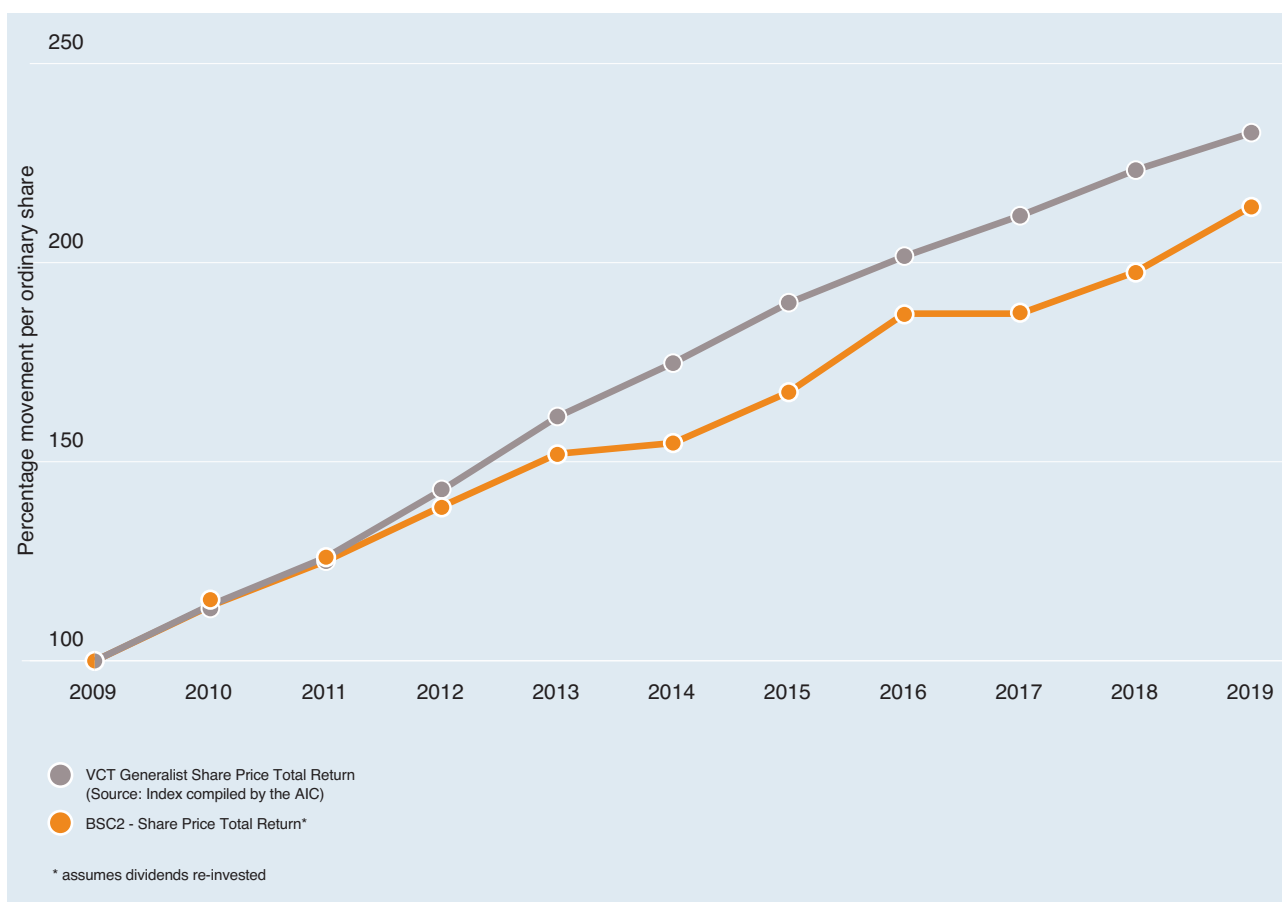
Directors' remuneration, dividend distribution and share buy-backs are shown in Table C

TABLE C
Relative Importance of Pay

	2019 £	2018 £
Dividends	9,299,000	3,225,000
Share buy-backs	1,631,000	1,194,000
Total directors fees	92,390	84,750

Consideration of Employment Conditions of Non-director Employees

The Company does not have any employees. Accordingly, the disclosures required under paragraph 38 and 39 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are not required.



Company Performance

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

Net asset value Total Return (calculated by reference to the net asset value and cumulative dividends paid, as set out in note 13 of these financial statements and excluding tax reliefs received by shareholders) is the primary recognised measure of performance in the VCT industry. This measure is shown on page 12.

The graph above shows a comparison over the last ten years of the movements in both the Company's Share Price Total Return and the Share Price Total Return for approximately 46 Generalist VCTs as published by the Association of Investment Companies (the AIC). In line with the AIC index all the relative performance measures have been rebased to 100 as at December 2008. The directors consider this to be the most appropriate published index on which to report on comparative performance.

This report was approved by the Board and signed on its behalf on 20 March 2020.

Peter Waller
Chairman

Directors' Responsibilities Statement

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

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

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

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

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

Website Publication

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

Directors' Responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

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

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

The names and functions of all the directors are stated on page 38.

This statement was approved by the Board and signed on its behalf on 20 March 2020.



Peter Waller
Chairman

Independent Auditor's Report

to the members of British Smaller Companies VCT2 plc

Opinion

We have audited the financial statements of British Smaller Companies VCT2 plc (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- > give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- > have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- > have been prepared in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- > the directors' confirmation in the annual report that they have carried out a robust assessment of the Company's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- > the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- > whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- > the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

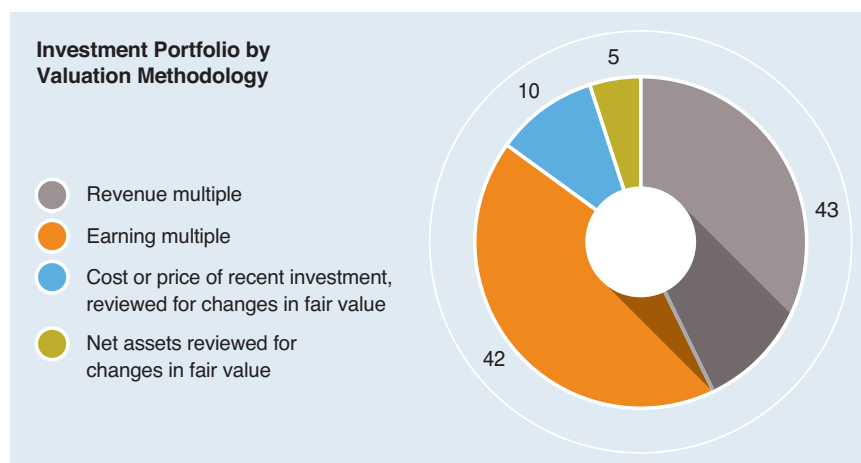
Matter	Audit response
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Valuation of unquoted investments (Note 1 and Note 7)

We consider the valuation and ownership of investments to be the most significant audit area as there is a high level of estimation uncertainty involved in determining the unquoted investment valuations.

There is an inherent risk of management override arising from the unquoted investment valuations being prepared by the Investment Adviser, who is remunerated based on the net asset value of the Company.

Our sample for the testing of unquoted investments was stratified according to risk considering, inter alia, the value of individual investments, the nature of the investment, the extent of the fair value movement and the subjectivity of the valuation technique. A breakdown of the investment portfolio valuation technique is shown below.



For all investments in our sample we:

- > challenged whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital (“IPEVC”) Valuation Guidelines and IFRSs; and
- > recalculated the value attributable to the Company, having regard to the application of enterprise value across the capital structures of the investee companies;

For investments sampled that were valued using less subjective valuation techniques (cost and price of recent investment reviewed for changes in fair value) we:

- > verified the cost or price of recent investment to supporting documentation;
- > considered whether the investment was an arm’s length transaction through reviewing the parties involved in the transaction and considering whether or not they were already investors of the investee company;
- > considered whether there were any indications that the cost or price of recent investment was no longer representative of fair value considering, inter alia, the current performance of the investee company and the milestones and assumptions set out in the investment proposal; and
- > considered whether the price of recent investment is supported by alternative valuation techniques.

Matter

Audit response

For investments sampled that were valued using more subjective techniques (earnings and revenue multiples) we:

- > challenged and corroborated the inputs to the valuation with reference to management information of investee companies, market data and our own understanding and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements;
- > reviewed the historical financial statements and any recent management information available to support assumptions about maintainable revenues and earnings used in the valuations;
- > considered the revenue or earnings multiples applied by reference to observable listed company market data; and
- > challenged the consistency and appropriateness of adjustments made to such market data in establishing the earnings multiple applied in arriving at the valuations adopted by obtaining independent multiples and performing sensitivity analysis on the investment valuations.

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

For a sample of investments we agreed the ownership to direct confirmation, share certificates, loan agreements and other publically available information, as applicable.

We also considered the completeness and clarity of disclosures regarding the valuation of investments in the financial statements.

Key observations

Based on the procedures performed we consider the investment valuations to be within an appropriate range considering the level of estimation uncertainty.

We consider the investment disclosures to be materially complete and accurate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could reasonably influence the economic decisions of users that are taken on the basis of the financial statements.

Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take

account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated on page 56. In setting materiality, we had regard to the nature and disposition of the investment portfolio.

Independent Auditor's Report (continued)

Materiality measure [basis]	Purpose	Key considerations	2019 Quantum (£)	2018 Quantum (£)
Financial statement materiality 2% value of investments	Assessing whether the financial statements as a whole present a true and fair view. We consider this to be the key measurement for shareholders.	<ul style="list-style-type: none"> > The value of investments > The level of judgement inherent in the valuation > The range of reasonable alternative valuation 	958,000	775,000
Performance materiality 75% of materiality	The maximum error in an assertion that we would be prepared to accept and still conclude that the result from an audit procedure has achieved our objective.	<ul style="list-style-type: none"> > The value of investments > The level of judgement inherent in the valuation > The range of reasonable alternative valuation 	720,000	580,000

We have set a lower testing threshold for those items impacting revenue return of £22,000 which is based on 10 per cent of revenue return before tax.

In prior year we set a formal specific materiality threshold for those items impacting revenue return of £91,000 which was based on 10 per cent of revenue return before tax.

In the current year we have not set a formal specific materiality threshold due to changes in the make up of the portfolio which has resulted in less income being received.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £18,000 (2018: £4,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

How the audit was considered capable of detecting irregularities, including fraud

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Chapter 3 Part 6 of the Income Tax Act 2007, the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the SORP and IFRS accounting standards, VAT, Employers NI and other taxes. We also considered the Company's qualification as a VCT under UK tax legislation as any breach of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tests included, but were not limited to:

- > obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- > review of minutes of board meetings throughout the period;
- > we made enquiries of the existence of legal invoices and correspondence in the period and reviewed any that were applicable;
- > review of VCT compliance workings and reports;
- > enquiries and representations of management and the Board of Directors;
- > agreement of the financial statement disclosures to underlying supporting documentation; and
- > multi-tier review of the financial statements against disclosure checklists.

There are inherent limitations in an audit of financial statements and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- > fair, balanced and understandable– the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- > Audit Committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or
- > directors' statement of compliance with the UK Corporate Governance Code– the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditor's Report (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- > the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- > adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by The Board of Directors on 22 December 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. In respect of the period ended 31 December 2019 we were reappointed by the members of the Company at the Annual General Meeting held on 7 May 2019. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter Smith (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

20 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	Revenue £000	2019 Capital £000	Total £000	Revenue £000	2018 Capital £000	Total £000
Gain on disposal of investments	7	-	2,868	2,868	-	3,103	3,103
Gains on investments held at fair value	7	-	2,323	2,323	-	1,376	1,376
Gain arising from the portfolio		-	5,191	5,191	-	4,479	4,479
Income	2	1,076	-	1,076	1,610	74	1,684
Total income		1,076	5,191	6,267	1,610	4,553	6,163
Administrative expenses:							
Investment Adviser's fee		(297)	(892)	(1,189)	(306)	(917)	(1,223)
Other expenses		(542)	-	(542)	(486)	-	(486)
	3	(839)	(892)	(1,731)	(792)	(917)	(1,709)
Profit before taxation		237	4,299	4,536	818	3,636	4,454
Taxation	4	-	-	-	(57)	57	-
Profit for the year		237	4,299	4,536	761	3,693	4,454
Total comprehensive income for the year		237	4,299	4,536	761	3,693	4,454
Basic and diluted earnings per ordinary share	6	0.19p	3.41p	3.60p	0.71p	3.46p	4.17p

The accompanying notes on pages 65 to 90 are an integral part of these financial statements.

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in October 2019 – "SORP") published by the AIC.

Balance Sheet

At 31 December 2019

	Notes	2019 £000	2018 £000
ASSETS			
Non-current assets at fair value through profit or loss			
Financial assets at fair value through profit or loss	7	47,913	38,102
Accrued income and other assets	8	488	467
		48,401	38,569
Current assets			
Accrued income and other assets	8	166	552
Cash on fixed term deposit	9	1,988	1,988
Cash and cash equivalents	9	21,944	23,115
		24,098	25,655
LIABILITIES			
Current liabilities			
Trade and other payables	10	(166)	(170)
Net current assets		23,932	25,485
Net assets		72,333	64,054
Shareholders' equity			
Share capital	11	14,041	11,318
Share premium account		16,436	4,351
Capital redemption reserve		88	88
Other reserves		2	2
Merger reserve		5,525	5,525
Capital reserve		25,223	33,694
Investment holding gains and losses reserve	7	9,948	7,335
Revenue reserve		1,070	1,741
Total shareholders' equity		72,333	64,054
Net asset value per ordinary share	12	55.2p	59.9p

The accompanying notes on pages 65 to 90 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 20 March 2020.



Peter Waller
Chairman

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £000	Share premium account £000	Other reserves* £000	Capital reserve £000	Investment holding gains and losses reserve £000	Revenue reserve £000	Total equity £000
Balance at 31 December 2017	10,450	257	5,615	32,198	9,090	1,446	59,056
<i>Revenue return for the year</i>	-	-	-	-	-	818	818
<i>Capital return</i>	-	-	-	(843)	-	-	(843)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	1,376	-	1,376
<i>Realisation of investments in the year</i>	-	-	-	3,103	-	-	3,103
<i>Taxation</i>	-	-	-	57	-	(57)	-
Total comprehensive income for the year	-	-	-	2,317	1,376	761	4,454
<i>Issue of share capital</i>	737	3,663	-	-	-	-	4,400
<i>Issue costs **</i>	-	(156)	-	(6)	-	-	(162)
<i>Unclaimed dividends</i>	-	-	-	7	-	-	7
<i>Purchase of own shares</i>	-	-	-	(1,194)	-	-	(1,194)
<i>Issue of shares – DRIS</i>	131	587	-	-	-	-	718
<i>Dividends</i>	-	-	-	(2,759)	-	(466)	(3,225)
Total transactions with owners	868	4,094	-	(3,952)	-	(466)	544
Realisation of prior year investment holding gains	-	-	-	3,131	(3,131)	-	-
Balance at 31 December 2018	11,318	4,351	5,615	33,694	7,335	1,741	64,054
<i>Revenue return for the year</i>	-	-	-	-	-	237	237
<i>Capital return</i>	-	-	-	(892)	-	-	(892)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	2,323	-	2,323
<i>Realisation of investments in the year</i>	-	-	-	2,868	-	-	2,868
Total comprehensive income for the year	-	-	-	1,976	2,323	237	4,536
<i>Issue of share capital</i>	2,320	10,960	-	-	-	-	13,280
<i>Issue costs **</i>	-	(496)	-	(135)	-	-	(631)
<i>Purchase of own shares</i>	-	-	-	(1,631)	-	-	(1,631)
<i>Issue of shares – DRIS</i>	403	1,621	-	-	-	-	2,024
<i>Dividends</i>	-	-	-	(8,391)	-	(908)	(9,299)
Total transactions with owners	2,723	12,085	-	(10,157)	-	(908)	3,743
Realisation of prior year investment holding losses	-	-	-	(290)	290	-	-
Balance at 31 December 2019	14,041	16,436	5,615	25,223	9,948	1,070	72,333

The accompanying notes on pages 65 to 90 are an integral part of these financial statements.

Statement of Changes in Equity (continued)

For the year ended 31 December 2019

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 on previous page	25,223	1,070	26,293
Less : income not yet distributable	-	(881)	(881)
: cancelled share premium not yet distributable	(7,242)	-	(7,242)
Reserves available for distribution***	17,981	189	18,170

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

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

*** Subject to filing these financial statements at Companies House, see table below.

The merger reserve was created to account for the difference between the nominal and fair value of shares issued as consideration for the acquisition of the assets and liabilities of British Smaller Technology Companies VCT plc. The reserve was created after meeting the criteria under section 131 of the Companies Act 1985 and the provisions of the Companies Act 2006 for merger relief. The merger reserve is a non-distributable reserve.

The capital reserve and revenue reserve are both distributable reserves. The reserves total £26,293,000 representing a decrease of £9,142,000 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 £26,293,000 shown above, £881,000 relates to income not yet distributable and £7,242,000 to cancelled share premium which becomes distributable from 1 January 2020 onwards (see below).

Total share premium previously cancelled is available for distribution from the following dates.

	£000
1 January 2020 – now distributable	3,565
1 January 2021	3,677
Cancelled share premium not yet distributable	7,242

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Net cash (outflow) inflow from operating activities		(582)	222
Cash flows (used in) from investing activities			
Purchase of financial assets at fair value through profit or loss	7	(11,413)	(5,647)
Proceeds from sale of financial assets at fair value through profit or loss	7	6,835	12,224
Deferred consideration	7	246	189
Net cash (outflow) inflow from investing activities		(4,332)	6,766
Cash flows from financing activities			
Issue of ordinary shares		13,280	4,379
Costs of ordinary share issues*		(631)	(141)
Purchase of own ordinary shares		(1,631)	(1,194)
Dividends paid	5	(7,275)	(2,598)
Net cash inflow from financing activities		3,743	446
Net (decrease) increase in cash and cash equivalents		(1,171)	7,434
Cash and cash equivalents at the beginning of the year		23,115	15,681
Cash and cash equivalents at the end of the year	9	21,944	23,115

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

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

	2019 £000	2018 £000
Profit before taxation	4,536	4,454
(Decrease) increase in trade and other payables	(4)	14
Decrease in accrued income and other assets	136	366
Gain on disposal of investments	(2,868)	(3,103)
Gains on investments held at fair value	(2,323)	(1,376)
Capitalised income	(59)	(133)
Net cash (outflow) inflow from operating activities	(582)	222

The accompanying notes on pages 65 to 90 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 and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (issued in October 2019 – "SORP") to the extent that they do not conflict with IFRSs as adopted by the European Union.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. New standards coming into force during the year have not had a material impact on these financial statements.

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

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

Financial Assets held at Fair Value through Profit or Loss

Financial assets designated as at fair value through profit or loss ("FVPL") at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest cash resources in venture capital investments as part of the Company's long-term capital growth strategy. Consequently, all investments are classified as held at fair value through profit or loss.

All investments are measured at fair value on the whole unit of account basis with gains and losses arising from changes in fair value being included in the Statement of Comprehensive Income as gains or losses on investments held at fair value.

Transaction costs on purchases are expensed immediately through profit or loss.

Redemption premiums are designed to protect the value of the Company's investment. These are accrued daily on an effective rate basis and included within the capital valuation of the investment (and thus classified under "Gains on investments held at fair value" in the Statement of Comprehensive Income).

Although the Company holds more than 20 per cent of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio, and their value to the Company lies in their marketable value as part of that portfolio. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and IFRS 11 'Joint arrangements' which give exemptions from equity accounting for venture capital organisations.

Under IFRS 10 "Consolidated Financial Statements", control is presumed to exist when the Company has power over an investee (whether or not used in practice); exposure or rights; to variable returns from that investee, and ability to use that power to affect the reporting entities returns from the investees. The Company does not hold more than 50 per cent of the equity of any of the companies within the portfolio. The Company does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 “Fair Value Measurement” and, using the International Private Equity and Venture Capital (“IPEVC”) Valuation Guidelines (“the Guidelines”) updated in December 2018. 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 IPEVC Guidelines we have identified six of the most widely used valuation methodologies for unquoted investments. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market-based data in order to derive a fair value.

Unquoted Investments

- > **sales multiples.** An appropriate multiple, given the risk profile and sales growth prospects of the underlying company, is applied to the revenue of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- > **earnings multiple.** An appropriate multiple, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- > **net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- > **discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- > **discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.
- > **price of recent investment.** This may represent the most appropriate basis where a significant amount of new investment has been made by an independent third party. This is adjusted, if necessary, for factors relevant to the background of the specific investment such as preference rights and will be benchmarked against other valuation techniques. In line with the IPEVC 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. This value is then apportioned appropriately to reflect the respective debt and equity instruments in the event of a sale at that level at the reporting date.

Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. The Company does not hold any quoted investments at 31 December 2019.

Income

Dividends and interest are received from financial assets measured at fair value through profit or loss and are recognised on the same basis in the Statement of Comprehensive Income. This includes interest and preference dividends rolled up and/or payable at redemption. Interest income is also received on cash, cash equivalents and cash deposits. Dividend income on 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 Investment Adviser's fee and incentive fees. Of the Investment Adviser's fees 75 per cent are allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains. The incentive fee payable to the Investment Adviser (as set out in note 3) is charged wholly through the Capital column.

Tax relief is allocated to the Capital Reserve using a marginal basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand as this meets the definition in IAS 7 'Statement of cash flows' of a short term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

Balances held in fixed term deposits are not classified as cash and cash equivalents, unless they are due for maturity within three months, as they do not meet the definition in IAS 7 'Statement of cash flows' of short-term highly liquid investments.

Cash flows classified as "operating activities" for the purposes of the Statement of Cash Flows are those arising from the Revenue column of the Income Statement, together with the items in the Capital column that do not fall to be easily classified under the headings for "Investing Activities" given by IAS 7 'Statement of cash flows', being advisory and incentive fees payable to the Investment Adviser. The capital cash flows relating to acquisition and disposal of investments are presented under "investing activities" in the Statement of Cash Flows in line with both the requirements of IAS 7 and the positioning given to these headings by general practice in the industry.

Share Capital and Reserves

Share Capital

This reserve contains the nominal value of all shares allotted under offers for subscription.

Share Premium Account

This reserve contains the excess of gross proceeds less issue costs over the nominal value of shares allotted under offers for subscription, to the extent that it has not been cancelled.

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

Capital Redemption Reserve

The nominal value of shares bought back and cancelled is held in this reserve, so that the Company's capital is maintained.

Capital Reserve

The following are included within this reserve:

- > gains and losses on realisation of investments;
- > realised losses upon permanent diminution in value of investments;
- > 75 per cent of the Investment Adviser's fee expense, together with the related taxation effect to this reserve in accordance with the policy on expenses in note 1 of the financial statements;
- > incentive fee payable to the Investment Adviser;
- > capital dividends paid to shareholders;
- > purchase and holding of the Company's own shares; and
- > credits arising from cancellation of any share premium account.

Investment Holding Gains 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 income from investments along with any costs associated with the running of the Company – less 75 per cent of the advisory fee expense as detailed in the Capital Reserve above.

Taxation

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

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

Dividends Payable

Dividends payable are recognised only when an obligation exists. Interim and special dividends are recognised when paid and final dividends are recognised when approved by shareholders in general meetings.

Segmental Reporting

In accordance with IFRS 8 'Operating segments' and the criteria for aggregating reportable segments, segmental reporting has been determined by the directors based upon the reports reviewed by the Board. The directors are of the opinion that the Company has engaged in a single operating segment - investing in equity and debt securities within the United Kingdom - and therefore no reportable segmental analysis is provided.

Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting practice requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine the fair value of investments at fair value through profit or loss, as disclosed in note 7 to the financial statements.

The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Board uses its judgement to select from a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

2. Income

	2019 £000	2018 £000
Dividends from unquoted companies	325	523
Dividends from AIM quoted companies	6	91
Interest on loans to unquoted companies	526	944
Income from investments held at fair value through profit or loss*	857	1,558
Interest on bank deposits	219	126
	1,076	1,684

* £47,000 of income previously recognised, now impaired, was disclosed as a deduction from income in the 2018 Annual Report (see note 3)

Notes to the Financial Statements (continued)

3. Administrative Expenses

	2019 £000	2018 £000
Investment Adviser's fee	1,189	1,223
Administration fee	68	66
Total payable to YFM Private Equity Limited	1,257	1,289
<i>Other expenses:</i>		
Directors' remuneration	102	93
Trail commission	92	87
General expenses	66	64
Listing and registrar fees	56	43
Printing	32	33
Auditor's remuneration – audit fees (excluding irrecoverable VAT)	32	28
– audit related assurance services	-	7
Irrecoverable VAT	29	18
	1,666	1,662
Fair value movement related to credit risk*	65	47
	1,731	1,709
Ongoing charges figure	2.30%	2.49%

* The £47,000 shown for the year ended 31 December 2018 was previously disclosed as a deduction from income in the 2018 annual report.

Directors' remuneration comprises only short term benefits including social security contributions of £9,000 (2018: £8,000).

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

No fees are payable to the auditor in respect of other services (2018: £7,000) apart from those shown above.

YFM Private Equity Limited has acted as Investment Adviser and performed administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014, 7 August 2015 and 13 November 2019 (the "IAA"). The agreement may be terminated by not less than twelve months' notice given by either party at any time. Following the Financial Conduct Authority's registration of the Company as a Small Registered Alternative Investment Fund Manager in 2014, the Company has retained responsibility for the custody of its investments.

The key features of the agreement are:

- > YFM Private Equity Limited receives an Investment Adviser fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;
- > with effect from 1 January 2019 the annual advisory fee payable to the Investment Adviser is 1.0 per cent on all surplus cash, defined as all cash above £10 million, unless the Hurdle has been met triggering an incentive payment in which case the amount determined to be surplus will be the excess over £5 million. The annual fee on all other assets is 2.0 per cent of net assets per annum. Based on the Company's net assets at 31 December 2019 of £72,333,000 and cash of £23,932,000 at that date, this equates to £1,307,000 per annum;
- > YFM Private Equity Limited shall bear the annual operating costs of the Company (including the advisory fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company; and
- > under the IAA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £68,000 for the year ended 31 December 2019 (2018: £66,000).

When the Company makes investments into its unquoted portfolio the Investment Adviser charges that investee an advisory fee. With effect from 1 October 2013 if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over the Company's financial year, this excess will be rebated to the Company. As at 31 December 2019, the Company was due a rebate from the Investment Adviser of £nil (2018: £nil).

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

The total remuneration payable to YFM Private Equity Limited under the IAA in the year was £1,257,000 (2018: £1,289,000).

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2019 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £658,000 (2018: £576,000).

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

Notes to the Financial Statements (continued)

3. Administrative Expenses (continued)

By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Carried Interest Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Pursuant to a deed of variation dated 16 November 2012 between the Company, the trustees of the Trust and Chord, the Subscription Rights Agreement was varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord. Pursuant to a deed of variation dated 5 August 2014 the Subscription Rights Agreement was varied so that the recipient was changed from the Trust to YFM Private Equity Limited. Pursuant to a deed of variation dated 13 November 2019 the Subscription Rights Agreement was varied so that the recipients can elect to receive the incentive in the form of shares or cash.

As at 31 December 2019 the total of cumulative cash dividends paid and mid-market price was 118.50 pence per ordinary share. Consequently the Hurdle has not been exceeded and no performance related incentive is payable.

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 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 VCT plc on 28 November 2018, YFM Private Equity Limited was entitled to 4.5 per cent of gross subscriptions from execution brokers and 2.5 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £416,000.

Under the terms of the offer launched on 11 January 2018, YFM Private Equity Limited was entitled to 4.5 per cent of gross subscriptions from execution brokers and 2.5 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £130,000.

The Investment Adviser met all costs and expenses arising from these offers out of these fees, including any payment or re-investment of initial intermediary commissions.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 50 under the heading "Directors' Remuneration for the year ended 31 December 2019 (audited)".

4. Taxation

	Revenue £000	2019 Capital £000	Total £000	Revenue £000	2018 Capital £000	Total £000
Profit before taxation	237	4,299	4,536	818	3,636	4,454
Profit before taxation multiplied by standard rate of corporation tax in UK of 19% (2018: 19%)	45	817	862	155	691	846
Effect of:						
UK dividends received	(65)	-	(65)	(98)	(14)	(112)
Non-taxable profits on investments	-	(986)	(986)	-	(851)	(851)
Excess advisory expenses	20	169	189	-	117	117
Tax charge (credit)	-	-	-	57	(57)	-

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

Deferred tax assets of £851,000 (2018: £699,000) calculated at 17% in respect of unrelieved management expenses (£5.01 million as at 31 December 2019 and £4.11 million as at 31 December 2018) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

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

5. Dividends

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

	Revenue £000	2019 Capital £000	Total £000	Revenue £000	2018 Capital £000	Total £000
Special interim dividend for the year ended 31 December 2019 of 5.0p (2018: £nil) per ordinary share	78	5,273	5,351	-	-	-
Final dividend for the year ended 31 December 2018 of 1.5p (2018: 1.5p) per ordinary share	785	1,190	1,975	265	1,347	1,612
Interim dividend for the year ended 31 December 2019 of 1.5p (2018: 1.5p) per ordinary share	45	1,928	1,973	201	1,412	1,613
	908	8,391	9,299	466	2,759	3,225
Shares allotted under DRIS			(2,024)			(718)
Unclaimed dividends			-			91
Dividends paid in Statement of Cash Flows			7,275			2,598

The special interim dividend of 5.0 pence per ordinary share was paid on 15 February 2019 to shareholders on the register as at 18 January 2019.

The final dividend of 1.5 pence per ordinary share in respect of the year to 31 December 2018 was paid on 10 May 2019 to shareholders on the register as at 5 April 2019.

The interim dividend of 1.5 pence per ordinary share was paid on 23 September 2019 to shareholders on the register as at 23 August 2019.

An interim dividend of 2.0 pence per ordinary share in respect of the year ending 31 December 2020 has been announced. This dividend has not been recognised in the year ended 31 December 2019 as the obligation did not exist at the balance sheet date.

During previous years the Company had received amounts from the Registrars in respect of unclaimed dividends and had made efforts to contact the relevant shareholders. The unclaimed balance of £91,000 was subsequently returned to the Registrars during 2018.

Notes to the Financial Statements (continued)

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £4,536,000 (2018: £4,454,000) and 125,967,837 (2018: 106,692,574) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings per ordinary share is based on the profit for the year attributable to shareholders of £237,000 (2018: £761,000) and 125,967,837 (2018: 106,692,574) 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 £4,299,000 (2018: £3,693,000) and 125,967,837 (2018: 106,692,574) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 23,205,679 new ordinary shares from the fundraising, and 4,026,578 new ordinary shares in respect of its DRIS.

The Company has also repurchased 3,150,531 of its own shares in the year, and these shares are held in the capital reserve. The total of 9,309,092 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 December 2019 and 31 December 2018.

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. A market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise AIM quoted investments and other fixed income securities classified as held at fair value through profit or loss.

Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company held no such instruments in the current or prior year.

Level 3: the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The majority of the Company's investments fall into this category.

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it is included at the beginning of each accounting period. The change in fair value for the current and previous year is recognised through profit or loss.

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

All items held at fair value through profit or loss were designated as such upon initial recognition.

Valuation of Investments

Full details of the methods used by the Company are set out in note 1 of these financial statements. Where investments are held in quoted stocks, fair value is set at the market bid price.

Movements in investments at fair value through profit or loss during the year to 31 December 2019 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	Total Investments £000
	Unquoted Investments £000	Quoted Equity Investments £000	
Opening cost	30,042	754	30,796
Opening investment holding gain	6,977	329	7,306
Opening fair value at 1 January 2019	37,019	1,083	38,102
Additions at cost	11,413	-	11,413
Capitalised income	59	-	59
Disposal proceeds	(5,614)	(1,221)	(6,835)
Net profit on disposal*	2,713	138	2,851
Change in fair value	2,323	-	2,323
Closing fair value at 31 December 2019	47,913	-	47,913
Closing cost	37,995	-	37,995
Closing investment holding gain**	9,918	-	9,918
Closing fair value at 31 December 2019	47,913	-	47,913

* The net profit on disposal in the table above is £2,851,000 whereas that shown in the Statement of Comprehensive Income is £2,868,000. The difference comprises deferred proceeds of £17,000 in respect of assets which have been disposed of in prior years and are not included within the investment portfolio at 1 January 2019 (see page 78).

** Following the merger between the Company and British Smaller Technologies Company VCT plc a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is realised at the point of disposal to the capital reserve. At 31 December 2019 a total of £30,000 (2018: £30,000) was held on investments yet to be realised in the investment holdings gains and losses reserve.

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2018: £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 earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's investments, 43 per cent are held on an sales multiple basis and 42 per cent on an earnings multiple basis, which have significant judgement applied to the valuation inputs.

Notes to the Financial Statements (continued)

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

The table below sets out the range of Price Earnings (PE) multiple, Sales multiple (SM) and discounts applied in arriving at investments valued on these bases. 10 per cent are deals held at cost or price of recent investment, reviewed for change in fair value. The remaining 5 per cent are valued based on net asset value reviewed for change in fair value.

Earnings multiple inputs		Business, Services	Software, IT & Telecoms	Retail & Brands	Manufacturing & Industrial Services
2019	PE Multiple Range	18.90-27.26	19.40-34.57	6.78-22.60	18.90-28.42
	PE Multiple Weighted Average	22.86	32.19	16.51	23.25
2018	PE Multiple Range	18.47-20.08	14.50-24.18	17.19-22.32	9.27-23.09
	PE Multiple Weighted Average	19.23	19.85	21.46	19.62
2019	Combined PE and/or Marketability Discount Range	56%-68%	36%-72%	20%-76%	55%-72%
	Combined PE and/or Marketability Discount Weighted Average	61%	66%	54%	65%
2018	Combined PE and/or Marketability Discount Range	40%-68%	40%-68%	20%-44%	28%-64%
	Combined PE and/or Marketability Discount Weighted Average	56%	55%	24%	59%
Sales multiple inputs		Business, Services	Software, IT & Telecoms	Retail & Brands	
2019	Sales Multiple Range	7.30	4.90-10.00	1.35	
	Sales Multiple Weighted Average	7.30	7.47	1.35	
2018	Sales Multiple Range	-	4.33-9.87	-	
	Sales Multiple Weighted Average	-	7.19	-	
2019	Combined SM and/or Marketability Discount Range	56%	20%-76%	68%	
	Combined SM and/or Marketability Discount Weighted Average	56%	50%	68%	
2018	Combined SM and/or Marketability Discount Range	-	20%-72%	-	
	Combined SM and/or Marketability Discount Weighted Average	-	38%	-	

The standard also requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. Each unquoted portfolio company has been reviewed in order to identify the sensitivity of the valuation methodology to using alternative assumptions. Where discounts have been applied (for example to Earnings Levels or PE ratios) alternatives have been considered which still fall within the IPEVC Guidelines (see page 66). For each unquoted investment, two scenarios have been modelled: more prudent assumptions (downside case) and more optimistic assumptions (upside case). Applying the downside alternative the value of the unquoted investments would be £2.7 million or 5.5 per cent lower. Using the upside alternative the value would be increased by £2.6 million or 5.4 per cent.

Movements in investments at fair value through profit or loss during the previous year to 31 December 2018 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	Total Investments £000
	Unquoted Investments £000	Quoted Equity Investments £000	
Opening cost	30,115	1,248	31,363
Opening investment holding gain	8,026	1,034	9,060
Opening fair value at 1 January 2018	38,141	2,282	40,423
Additions at cost	5,647	-	5,647
Capitalised income and proceeds	59	424	483
Disposal proceeds	(10,676)	(1,898)	(12,574)
Net profit on disposal*	2,446	301	2,747
Change in fair value	1,402	(26)	1,376
Closing fair value at 31 December 2018	37,019	1,083	38,102
Closing cost	30,042	754	30,796
Closing investment holding gain	6,977	329	7,306
Closing fair value at 31 December 2018	37,019	1,083	38,102

* The net profit on disposal in the table above is £2,747,000 whereas that shown in the Statement of Comprehensive Income is £3,103,000. The difference comprises deferred proceeds of £356,000 in respect of assets which have been disposed of in prior years and are not included within the investment portfolio at 1 January 2018.

Notes to the Financial Statements (continued)

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

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

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2019 £000	Profit (loss) on disposal £000
<i>Unquoted investments:</i>				
Eikon Holdco Limited	4,209	1,500	1,580	2,629
The Heritage Window Company Holdco Limited	-	410	75	(75)
Hutchinson Networks Limited	-	880	-	-
Leengate Holdings Limited	1,291	716	1,240	51
Solcom Limited	85	-	-	85
Tissuemed Limited	16	-	-	16
Seven Technologies Holdings Limited	13	14	6	7
Total from unquoted investments	5,614	3,520	2,901	2,713
<i>Quoted investments:</i>				
AB Dynamics plc	101	7	95	6
EKF Diagnostics plc	282	235	235	47
Iomart Group plc	352	86	330	22
Renalytix plc	110	74	73	37
Volex plc	376	352	350	26
Total from quoted investments	1,221	754	1,083	138
Total from disposals in the year	6,835	4,274	3,984	2,851
<i>Deferred proceeds:</i>				
Selima Holding Company Ltd	246	-	229	17
Deferred proceeds received	246	-	229	17
Total from quoted and unquoted investments	7,081	4,274	4,213	2,868

The following disposals took place in the previous year to 31 December 2018:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2018 £000	Profit (loss) on disposal £000
<i>Unquoted investments:</i>				
ACC Aviation Group Limited	615	615	615	-
Gill Marine Holdings Limited	2,844	1,870	1,922	922
GTK (Holdco) Limited	2,614	295	1,950	664
KeTech Enterprises Limited	500	500	500	-
Leengate Holdings Limited	385	218	298	87
Macro Art Holdings Limited	43	43	43	-
Mangar Health Limited	3,675	1,640	2,641	1,034
PowerOasis Limited	-	594	258	(258)
Seven Technologies Holdings Limited	-	4	3	(3)
Total from unquoted investments	10,676	5,779	8,230	2,446
<i>Quoted investments:</i>				
AB Dynamics plc	511	42	405	106
Allergy Therapeutics plc	124	350	132	(8)
EKF Diagnostics plc	236	201	197	39
Gamma Communications plc	316	71	247	69
Iomart Group plc	128	32	144	(16)
Gooch & Housego plc	583	221	472	111
Total from quoted investments	1,898	917	1,597	301
Total from disposals in the year*	12,574	6,696	9,827	2,747
<i>Deferred proceeds:</i>				
Ness (Holdings) Limited	5	-	42	(37)
Selima Holding Company Ltd**	413	-	20	393
Deferred proceeds received	418	-	62	356
Total from quoted and unquoted investments	12,992	6,696	9,889	3,103

* The total from disposals in the year in the table above is £12,574,000 whereas that shown in the Statement of Cash Flows is £12,224,000. The difference comprises proceeds of £350,000 which were received in the form of shares in a company listed on AIM.

** Includes agreed deferred proceeds of £229,000.

Notes to the Financial Statements (continued)

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

Significant Interests

YFM Private Equity Limited, the Company's Investment Adviser, also acts as investment adviser or manager to certain other funds that have invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised in the tables below.

At 31 December 2019 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly advised/managed funds, in the following companies:

Company	Principal activity	No of shares held by the Company	Percentage of class held by the Company*	Percentage of class held by commonly advised / managed funds*
ACC Aviation Group Limited	Business Services	220,000	18%	68%
Arcus Global Limited	Software, IT & Telecomms	304,457	16%	37%
Bagel Nash Group Limited	Manufacturing & Industrial	33,091	5%	40%
Biz2Mobile Limited	Software, IT & Telecomms	2,261,591	10%	26%
Business Collaborator Limited	Software, IT & Telecomms	126,000	19%	48%
Deep-Secure Ltd	Software, IT & Telecomms	49,678	8%	56%
DisplayPlan Holdings Limited	Business Services	1,260	12%	35%
e2E Engineering Limited	Manufacturing & Industrial	348	9%	23%
EL Support Services Limited**	Business Services	3,500	50%	100%
Elucidat Ltd	Business Services	2,301	8%	20%
Friska Limited	Retail & Brands	60,232	14%	36%
Immunobiology Limited**	Healthcare	53,285,280	25%	25%
Intamac Systems Limited	Software, IT & Telecomms	1,500,000	12%	36%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	Business Services	106,609	18%	44%
KeTech Enterprises Limited	Software, IT & Telecomms	128,333	16%	48%
Macro Art Holdings Limited	Business Services	100,000	14%	35%
Matillion Limited	Software, IT & Telecomms	25,837	7%	21%
NB Technology Services Limited**	Software, IT & Telecomms	3,500	50%	100%
Ncam Technologies Limited	Software, IT & Telecomms	1,182,083	16%	57%
OC Engineering Services Limited**	Retail & Brands	3,500	50%	100%
Panintelligence (via Paninsight Limited)	Software, IT & Telecomms	22,712	10%	35%
RMS Group Holdings Limited	Manufacturing & Industrial	59,619	6%	21%
Seven Technologies Holdings Limited	Software, IT & Telecomms	619,130	13%	60%
SH Healthcare Services Limited**	Healthcare	3,500	50%	100%
SharpCloud Software Limited	Software, IT & Telecomms	16,932	10%	30%

Company	Principal activity	No of shares held by the Company	Percentage of class held by the Company*	Percentage of class held by commonly advised / managed funds*
Sipsynergy (via Hosted Network Services Limited)	Software, IT & Telecomms	369,546	16%	50%
SP Manufacturing Services Limited**	Manufacturing & Industrial	3,500	50%	100%
Springboard Research Holdings Limited	Business Services	171,892	13%	32%
Tonkotsu Limited	Retail & Brands	33,662	12%	38%
Traveltek Group Holdings Limited	Software, IT & Telecomms	36,190	15%	47%
Unbiased EC1 Limited	Business Services	774,096	11%	30%
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing & Industrial	49,600	16%	41%
Wooshii Limited	Business Services	443,106	8%	20%

* Fully diluted holding.

** The registered office of these significant holdings is given on page 94.

The amounts shown below are the net cost of investments as at 31 December 2019 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT2 plc £000	British Smaller Companies VCT plc £000	Other commonly managed/ advised funds £000	Total £000
ACC Aviation Group Limited	145	220	185	550
Arcus Global Limited	1,950	2,925	-	4,875
Bagel Nash Group Limited	630	944	2,185	3,759
Biz2Mobile Limited	1,105	1,658	-	2,763
Business Collaborator Limited	1,340	2,010	-	3,350
Deep-Secure Ltd	500	1,000	3,000	4,500
DisplayPlan Holdings Limited	70	130	-	200
e2E Engineering Limited	600	900	-	1,500
Eikon Holdco Limited	500	750	250	1,500
EL Support Services Limited	500	500	-	1,000
Elucidat Ltd	1,400	2,100	-	3,500
Frescobol Carioca Ltd	1,200	1,800	-	3,000
Friska Limited	1,200	1,800	-	3,000
Intamac Systems Limited	905	302	2,422	3,629
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	1,956	2,934	-	4,890
KeTech Enterprises Limited	1,500	1,500	1,000	4,000
Macro Art Holdings Limited	480	720	-	1,200
Matillion Limited	1,778	2,666	635	5,079

Notes to the Financial Statements (continued)

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

	British Smaller Companies VCT2 plc £000	British Smaller Companies VCT plc £000	Other commonly managed/ advised funds £000	Total £000
NB Technology Services Limited	500	500	-	1,000
Ncam Technologies Limited	1,341	2,011	1,263	4,615
OC Engineering Services Limited	500	500	-	1,000
Panintelligence (via Paninsight Limited)	1,000	1,500	1,000	3,500
RMS Group Holdings Limited	70	180	-	250
Seven Technologies Holdings Limited	1,234	1,692	6,861	9,787
SH Healthcare Services Limited	500	500	-	1,000
SharpCloud Software Limited	1,460	2,190	850	4,500
SP Manufacturing Services Limited	500	500	-	1,000
Springboard Research Holdings Limited	1,883	2,824	-	4,707
Sipsynergy (via Hosted Network Services Ltd)	1,309	1,770	921	4,000
TeraView Limited	377	377	-	754
Tonkotsu Limited	1,592	2,388	995	4,975
Traveltek Group Holdings Limited	1,164	1,717	2,536	5,417
Unbiased EC1 Limited	1,964	2,946	640	5,550
Wakefield Acoustics (via Malvar Engineering Limited)	720	1,080	-	1,800
Wooshii Limited	1,440	2,160	-	3,600

8. Accrued Income and Other Assets

	2019 £000	2018 £000
Non-current assets:		
Accrued income on financial assets	488	467
Current assets:		
Accrued income on financial assets	113	471
Accrued income on cash, cash equivalents and cash deposits	27	33
Prepayments and accrued income	26	48
	166	552

Non-current assets relates to loan interest receivable on exit from the relevant investee company where this is expected to be more than one year from the balance sheet date.

The carrying amounts of the Company's accrued income are denominated in sterling.

9. Cash and Cash Equivalents

	2019 £000	2018 £000
Cash at bank	21,944	23,115
Cash and Cash Equivalents	21,944	23,115

At 31 December 2019 a further £1.99 million (2018: £1.99 million) was also held in fixed term deposit accounts which were due to mature in April 2020. In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year are shown separately as a current asset on the face of the balance sheet.

10. Trade and Other Payables

	2019 £000	2018 £000
Amounts payable within one year:		
Accrued expenses	166	170
	166	170

Notes to the Financial Statements (continued)

11. Called-up Share Capital

	2019 Allotted, called-up and fully paid £000	2018 Allotted, called-up and fully paid £000
Ordinary shares of 10 pence Issued: 131,100,546 (2018: 107,018,820) including 9,309,092 shares held in treasury (2018: 6,158,561)	14,041	11,318

The movement in the year was as follows:

	Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2019			113,177,381	11,318
Issue of shares DRIS	50.45	15 Feb 2019	2,248,386	224
Issue of shares Fundraising	56.308-57.433	1 April 2019	23,205,679	2,321
Issue of shares DRIS	50.83	10 May 2019	855,041	86
Issue of shares DRIS	49.31	23 September 2019	923,151	92
As at 31 December 2019 (including treasury shares)			140,409,638	14,041
As at 31 December 2019 (excluding treasury shares)			131,100,546	

The movement in the previous year to 31 December 2018 was as follows:

	Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2018			104,496,926	10,450
Issue of shares Fundraising	59.385-60.571	16 February 2018	7,366,700	737
Issue of shares DRIS	54.82	11 May 2018	655,669	65
Issue of shares DRIS	54.44	28 September 2018	658,086	66
As at 31 December 2018 (including treasury shares)			113,177,381	11,318
As at 31 December 2018 (excluding treasury shares)			107,018,820	

During the year the Company purchased 3,150,531 (2018: 2,152,210) of its own shares and these shares are held on the balance sheet in the Capital Reserve. Full details of the share purchases are set out in the Directors' Report under the heading 'Buy-Back and Issue of Shares'. The treasury shares have been included in calculating the number of ordinary shares in issue, and excluded in calculating the number of ordinary shares with voting rights in issue, at 31 December 2019 and 31 December 2018.

12. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted net asset value per ordinary share is calculated on attributable assets of £72,333,000 (2018: £64,054,000) and 131,100,546 (2018: 107,018,820) ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 December 2019.

The Company has no potentially dilutive shares and consequently, basic and diluted net asset values per ordinary share are equivalent in both the year ended 31 December 2019 and 31 December 2018.

13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 66.5 pence per ordinary share (2018: 58.5 pence per ordinary share) plus the net asset value as calculated per note 12.

14. Financial Commitments

There are no financial commitments at 31 December 2019 or 31 December 2018.

15. Events after the Balance Sheet Date

On 10 March 2020 the Company realised its investment in Business Collaborator Limited for £5.08 million, compared to the valuation of £3.46 million at 31 December 2019, which is a strong uplift on the original cost of the holding of £1.34 million. The process began in earnest in January 2020 and the buyer was able to transact quickly, leading to completion in March.

16. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year. The Company classifies its financial assets as either fair value through profit or loss or at amortised cost, and its financial liabilities, primarily accrued expenses, at amortised cost.

It is the directors' opinion that the carrying value of financial assets and liabilities approximates their fair value. Therefore, the directors consider all assets and liabilities to be carried at a valuation which equates to fair value.

Investments are made in a combination of equity, fixed rate and variable rate financial instruments so as to comply with VCT legislation and provide potential future capital growth. Surplus funds are held in bank deposits until suitable qualifying investment opportunities arise.

The Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain criteria set out in the standard. No embedded derivatives have been identified by the Company.

Notes to the Financial Statements (continued)

16. Financial Instruments (continued)

The accounting policies for financial instruments have been applied to the items below:

Assets as per balance sheet

	2019 Other assets £000	2019 Assets at fair value through profit or loss £000	2018 Other assets £000	2018 Assets at fair value through profit or loss £000
Non-current assets at fair value through profit or loss				
Financial assets	-	47,913	-	38,102
Accrued income on financial assets	-	488	-	467
Current assets				
Cash and cash equivalents	21,944	-	23,115	-
Cash on fixed term deposit	1,988	-	1,988	-
Accrued income on financial assets	-	113	-	471
Accrued income on cash, cash equivalents and cash deposits	27	-	33	-
	23,959	48,514	25,136	39,040
Other assets – not financial instruments	26	-	48	-
	23,985	48,514	25,184	39,040

Liabilities as per balance sheet

	2019 Other financial liabilities £000	2018 Other financial liabilities £000
Trade and other payables	(166)	(170)
	(166)	(170)

Assets classified as fair value through profit or loss were designated as such upon initial recognition.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

16a Market Risk

Market Price Risk

The Company invests in new and expanding businesses, the shares of which may not be traded on the stock market. Consequently, exposure to market factors, in relation to many investments, stems from market based measures that may be used to value unlisted investments.

The market also defines the value at which investments may be sold. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for VCTs.

Of the Company's investments, 100 per cent are in unquoted companies held at fair value (2018: 97 per cent). The valuation methodology for these investments includes the application of externally produced sales multiples and FTSE® PE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Investments have been valued in line with the valuation guidelines described within note 1. Those using earnings and sales multiple methodologies include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £4,295,000 (5.9 per cent of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's shareholders and the total profit for the year by £4,160,000 (5.8 per cent of net assets) .

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's shareholders and the total profit for the year by less than 0.5 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in ACC Aviation Group Limited which constitutes 9.1 per cent of the net assets attributable to the Company's shareholders. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those that have had their fair value reduced to nil, is 1.9 per cent (2018: 1.7 per cent) of the value of net assets.

Notes to the Financial Statements (continued)

16. Financial Instruments (continued)

Comparison of Realised Proceeds to Unrealised Valuations

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

Full disposal	Date of Disposal	Sale Proceeds £000	Valuation £000	Increase (decrease) £000
Silistix Limited	Dec-10	10	387	(377)
Primal Pictures Limited	Aug-12	1,916	1,008	908
Sirigen Group Limited	Aug-12	1,962	517	1,445
Digital Healthcare Limited	Aug-13	1,285	1,156	129
Waterfall Services Limited	Jan-14	964	489	475
Insider Technologies (Holdings) Limited	Oct-15	773	587	186
Callstream Group Limited	Mar-16	785	773	12
Cambrian Park & Leisure Homes Limited	Mar-17	-	1,251	(1,251)
Ness (Holdings) Limited	Mar-17	83	509	(426)
Selima Holding Company Ltd	May-17	1,406	462	944
Harvey Jones Holdings Limited	Aug-17	559	617	(58)
PowerOasis Limited	Sep-18	-	365	(365)
GTK (Holdco) Limited	Dec-18	2,465	1,801	664
Mangar Health Limited	Dec-18	3,675	2,641	1,034
Gill Marine Holdings Limited	Dec-18	2,844	1,922	922
Leengate Holdings Limited	Apr-19	1,676	1,484	192
The Heritage Window Company Holdco Limited	Jun-19	-	280	(280)
Eikon Holdco Limited (partial realisation)	Oct-19	4,209	1,500	2,709
		24,612	17,749	6,863

Interest Rate Risk

The Company's venture capital investments include £8,061,000 (2018: £9,396,000) of loan stock in unquoted companies. The majority of this loan stock at 31 December 2019 is at fixed rates to guard against fluctuations in interest rates. As a result the Company is only exposed to cash flow interest rate risk on £750,000 (2018: £700,000) of its loan stock portfolio.

The Company has some exposure to interest rates as a result of interest earned on bank deposits. Other financial assets (being accrued income) and other financial liabilities (being accrued expenses) attract no interest. A sensitivity analysis has not been performed as the amounts involved are not considered to be significant.

	2019			2018		
	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months
Fixed rate loan stock and preference shares	12,034	8.4	23	14,208	8.7	23
Cash on fixed term deposit	1,988	1.8	3	1,988	1.5	3
Combined	14,022	7.4	20	16,196	7.8	21

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

16b Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Adviser has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £41,601,000 (2018: £41,222,000) which best represents the maximum credit risk exposure at the balance sheet date.

The Company does not invest in floating rate instruments other than, on occasion, unquoted loan stock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed above.

The fair value of other assets is not regarded as having changed due to the changes in credit risk in either year.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Investment Adviser monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

The only significant assets not held at fair value are cash and cash equivalents and cash on fixed term deposit. The cash held by the Company is held across a number of banks to spread the risk. Bankruptcy or insolvency of these banks may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The banks used by the Company are large and reputable. Should the credit quality or the financial position of the banks deteriorate significantly the Investment Adviser will move the cash holdings to another bank.

The maturities of the loan stock portfolio are as follows:

	2019 £000				2018 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted loan investments	4,180	986	2,395	500	2,124	2,849	3,209	1,214

Notes to the Financial Statements (continued)

16. Financial Instruments (continued)

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

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

	< 1 year	2019 £000 < 1-2 years	<2-5 years	2018 £000 < 1 year	< 1-2 years
Loans to investee companies past due	900	706	280	2,394	-

Included within unquoted loan investments are £280,000 (2018: £557,000) of loans which are past their due date but have been re-negotiated.

16c Liquidity Risk

The risk to the Company relates to liabilities which fall due within one year. These liabilities are deemed immaterial and as such the risk associated with them is minimal.

The Company needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in bank interest deposit accounts. Investments in liquid funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise.

The Company's liquidity risk is managed on an ongoing basis by the Investment Adviser in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Of the Company's assets 30.3 per cent (2018: 36.1 per cent) are in the form of liquid cash. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material amount of liabilities at the year end.

17. Capital Management

The Company's objectives when managing capital are:

- > to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- > to ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified.

The Company has no external debt; consequently all capital is represented by the value of share capital, distributable and other reserves. Total shareholder equity at 31 December 2019 was £72.33 million (2018: £64.05 million).

In order to maintain or adjust its capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

There have been no changes in capital management objectives or the capital structure of the business from the previous year. The Company is not subject to any externally imposed capital requirements.

18. Related Party Transactions

Fees payable during the year to the directors and their interests in shares of the Company are disclosed within the Directors' Remuneration Report on pages 49 to 51. There were no amounts outstanding and due to the directors at 31 December 2019 (2018: £nil).

Notice of the Annual General Meeting

No: 04084003

BRITISH SMALLER COMPANIES VCT₂ PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 33 St James Square, London, SW1Y 4JS on 16 June 2020 at 12:00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

- (1) That the annual report and accounts for the year ended 31 December 2019 be received.
- (2) That the Directors' Remuneration Report for the year ended 31 December 2019 be approved other than the part of such report containing the Directors' Remuneration Policy.
- (3) That the Directors' Remuneration Policy contained in the Directors' Remuneration Report for the year ended 31 December 2019 be approved.
- (4) That Mr P C Waller be re-elected as a director.
- (5) That Mr R M Pettigrew be re-elected as a director.
- (6) That Mr R S McDowell be re-elected as a director.
- (7) That BDO LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.
- (8) That the directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £5,000,000, during the period commencing on the passing of this Resolution and expiring on the later of 15 months from the passing of this Resolution or the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares in the Company to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolution

- (9) That the directors be and are hereby empowered in accordance with Section 570(1) of the Act during the period commencing on the passing of this Resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of this Resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in Resolution 8 above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with the allotment for cash of equity securities up to an aggregate nominal amount of £5,000,000, but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(3) of the Act as if in the first paragraph of this Resolution the words "pursuant to the general authority conferred upon the directors in Resolution 8 above" were omitted.

By order of the Board

The City Partnership (UK) Limited
Company Secretary

20 March 2020

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

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from www.bscfunds.com.

Notice of the Annual General Meeting (continued)

Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes of the Form of Proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these notes. Please read note (k) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy must be completed and signed and with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made. If no voting indication is given in the Form of Proxy, your proxy will vote (or abstain from voting) as they think fit in relation to any matter put to the Annual General Meeting.
- (c) To be valid, any Form of Proxy or other instrument appointing a proxy, must be returned by no later than 12.00 noon on 12 June 2020 through any one of the following methods:
- i) by post, courier or (during normal business hours only) hand to the Company's UK registrar at:
Link Asset Services
PXS1
34 Beckenham Road
Beckenham
BR3 4ZF;
 - ii) electronically through the website of the Company's UK registrar at www.signalshares.com; or
 - iii) in the case of shares held through CREST, via the CREST system (see note (p) below);
- (d) If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
- (e) The return of a completed Form of Proxy, electronic filing or any CREST Proxy Instruction (as described in note (p) below) will not prevent a shareholder from attending the Meeting and voting in person if he/she wishes to do so.
- (f) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Link Asset Services before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to note (g) directly below, the proxy appointment will remain valid.
- (g) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (h) Copies of the directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company, a copy of the amended articles of association (marked up to show the changes) and a copy of the current articles of association of the Company will be available for inspection at the registered office

of the Company during usual business hours on any weekday (weekends and public holidays excluded) from the date of this Notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.

- (i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at close of business on 12 June 2020 or, in the event that the Annual General Meeting is adjourned, on the Register of Members at close of business on the day two days before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after close of business on 12 June 2020 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (j) As at 20 March 2020 the Company's issued share capital comprised 131,100,546 ordinary shares of 10 pence each with a further 9,309,092 shares held in treasury. Those treasury shares represented 6.6 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share carries one voting right at the Annual General Meeting of the Company and so the total number of voting rights in the Company as at 20 March 2020 was 131,100,546. The website referred to above will include information on the number of ordinary shares and voting rights.
- (k) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (l) A company which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (m) In the case of joint members, any one of them may sign the Form of Proxy. The vote of the person whose name stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.
- (n) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given on the Form of Proxy, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (o) Members may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.
- (p) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Advisers to the Company

Investment Adviser

YFM Private Equity Limited

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

Registrars

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Solicitors

Howard Kennedy LLP

No.1 London Bridge
London
SE1 9BG

Stockbrokers

Panmure Gordon (UK) Limited

One New Change
London
EC4M 9AF

Promoter

RAM Capital Partners LLP

4 Staple Inn
London
WC1V 7QH

Independent Auditor

BDO LLP

150 Aldersgate Offices
London
EC1A 4AB

VCT Status Adviser

Philip Hare & Associates LLP

Hamilton House
1 Temple Avenue
London
EC4Y 0HA

Bankers

Santander UK plc

44 Merrion Street
Leeds
LS2 8JQ

Company Secretary

The City Partnership (UK) Limited

110 George Street
Edinburgh
EH2 4LH

Registered Offices of Significant Holdings

Investment Companies

EL Support Services Limited

NB Technology Services Limited

OC Engineering Services Limited

SH Healthcare Services Limited

SP Manufacturing Services Limited

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

Immunobiology Limited

Babraham Research Campus
Babraham
Cambridge
CB22 3AT

British Smaller Companies VCT2 plc

Form of Proxy

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 16 June 2020 at 12:00 noon

I / We

being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Annual General Meeting or (see notes (2) to (6))

of

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 June 2020 at 12:00 noon and at any adjournment thereof.

Please tick here if this proxy is one of multiple proxy appointments being made (see note 2)

My/our proxy is to vote on the resolutions as indicated below. Please indicate with an "x" how you wish your vote to be cast. If no voting indication is given, your proxy will vote or abstain from voting on the resolutions at their discretion.

	For	Against	Withheld
Ordinary Resolutions			
1. To receive the annual report and accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr P C Waller as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr R M Pettigrew as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr R S McDowell as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint BDO LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the directors to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Resolution			
9. To waive pre-emption rights in respect of the allotment of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature

Dated

2020

Please refer to notes overleaf.

Please complete, sign and date, detach and return the Form of Proxy in the pre-paid envelope provided OR alternatively submit your proxy vote using the on-line facility at www.signalshares.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.



Form of Proxy (continued)

NOTES

1. The Notice of the Annual General Meeting is set out on pages 91 to 93 of the annual report.
2. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and set out in the Notice of the Annual General Meeting. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Annual General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made. If you would like to submit your form of proxy using the web-based voting facility go to www.signalshares.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.
5. Any alterations to the Form of Proxy must be initialled by the person who has signed the Form of Proxy.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Link Asset Services before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a company, this Form of Proxy must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the company.
8. In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion on any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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



British Smaller Companies VCT2 plc

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

Telephone 0113 244 1000
Email info@yfmeq.com

bscfunds.com

Transforming small businesses