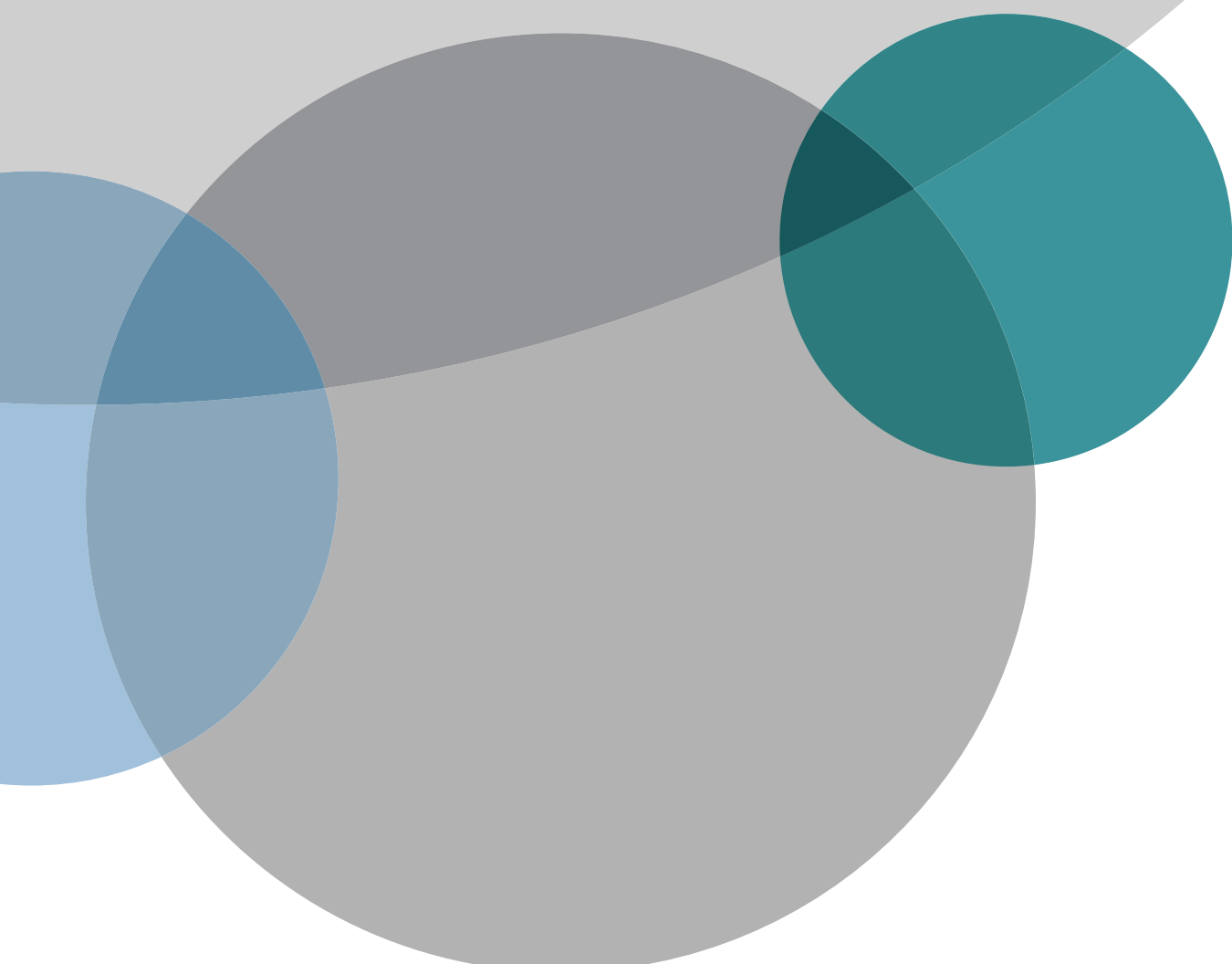




British Smaller Companies VCT2 plc

Annual Report

for the year ended 31 December 2021



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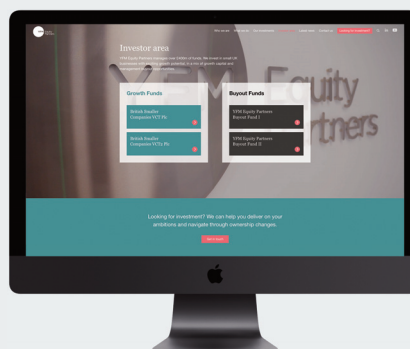
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About us

British Smaller Companies VCT2 plc was formed in 2000. It aims to provide investors exposure to a diversified portfolio of UK businesses that offer opportunities in the application and development of innovation in their products and services, across established and emerging industries. The investment portfolio has a valuation of £70.0 million as at 31 December 2021.

Registered Number:
04084003



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

BRITISH SMALLER COMPANIES VCT2 PLC

Transforming small businesses

Manager

YFM Private Equity Limited (“the Manager”) is a wholly owned subsidiary of YFM Equity Partners LLP and is a small Authorised Investment Fund Manager (AIFM), authorised and regulated by the Financial Conduct Authority.

Investment Policy

The investment strategy of British Smaller Companies VCT2 plc (“the Company”) is to invest in UK businesses across a broad range of sectors that blends a mix of businesses operating in established and emerging industries that offer opportunities in the application and development of innovation in their products and services.

These investments will all meet the definition of a Qualifying Investment* and be primarily in unquoted UK companies. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will comprise mainly equity investments. Further details of the Company’s investment policy can be found in the Strategic Report on page 10.

Dividend Policy

The 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 Venture Capital Trust are of particular benefit for 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 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 shareholders are eligible for income tax relief at 30 per cent of the amount invested, subject to an annual investment limit of £200,000, or, if lower, the amount of a shareholder’s income tax liability. 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.

*Under Chapter 3 Part 6 of the Income Tax Act 2007

Financial Highlights

TOTAL RETURN IN THE YEAR¹

139.5p

↑ 26.4%

The Company's Total Return increased by 14.5 pence, from 125.0 pence per ordinary share to 139.5 pence per ordinary share, which includes cumulative dividends paid of 78.0 pence per ordinary share. The increase is equivalent to a return of 26.4 per cent of the opening net asset value.

REALISATION PROCEEDS

£11.7m

↑ £7.7m over cost

Realisations of investments and loan repayments generated total proceeds of £11.7 million in the year, a gain of £5.3 million over the opening carrying value and £7.7 million over cost.

INVESTED

£6.1m

for 2021

Your Company completed a total of ten investments of which three were new additions to the portfolio.

DIVIDENDS PAID IN THE YEAR

8.0p

Total Dividends

Total dividends paid were 8.0 pence per ordinary share, which equates to 14.5 per cent of the opening net asset value per ordinary share.

FUNDS RAISED

£31.0m

for 2021

£24.2 million raised at the end of the year and allotted in January 2022, as well as £6.8 million raised in a non-prospectus top up fundraising in March 2021

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 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.

Five Year Summary

	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018	Year ended 31 December 2017
Income £000	661	2,752	1,076	1,684	1,413
Profit before and after taxation £000	20,389	4,251	4,536	4,454	2,069
Net assets attributable to ordinary shares £000	87,375	70,929	72,333	64,054	59,056
Profit per ordinary share	14.71p	3.27p	3.60p	4.17p	2.07p
Dividends per ordinary share paid in the year	8.0p	3.5p	8.0p	3.0p	3.0p
Net asset value per ordinary share	61.5p	55.0p	55.2p	59.9p	58.8p
Total Return per ordinary share ¹	139.5p	125.0p	121.7p	118.4p	114.3p
Increase in Total Return per ordinary share ¹	14.5p	3.3p	3.3p	4.1p	2.1p
Average annual investment rate of return ¹	27.5%				
Cumulative 3 year increase in Total Return per ordinary share ¹	21.1p				
Cumulative 5 year increase in Total Return per ordinary share ¹	27.3p				

1. These are Alternative Performance Measures. The Board considers Total Return to be the primary measure of shareholder value. The average annual investment rate of return comprises the cumulative dividends paid plus the NAV at 31 December 2021.

Financial Calendar

Results Announced	21 March 2022	DRIS Election date	19 April 2022
Ex-dividend date	31 March 2022	Interim dividend paid	6 May 2022
Record date	1 April 2022	Annual General Meeting	13 June 2022

Your Portfolio



Chairman's Statement

In my third annual statement I am pleased to report that, despite the prevailing pandemic and post Brexit fallout, the resilience and growth of the portfolio that was seen in the latter part of 2020 has continued throughout 2021. The weighting towards business-to-business services emphasising technology-enabled solutions, data management, analytics, protection and migration continues to benefit from the accelerated trends that the pandemic has provided. Meanwhile the more retail and leisure focused companies have proven themselves adept at flexing their businesses and adapting to an ever changing landscape, with many now emerging in a more focused and streamlined guise to capture their customers' return to the market.

This progress is reflected in the performance of the Company in the year to 31 December 2021, with positive valuation growth in the period. This means that over the two years since the outbreak of the pandemic, the Company has seen a total return of 32.2 per cent on the net asset value of 55.2 pence per share at 31 December 2019.

I and my fellow Board members were pleased to see this shared by our investors, and were delighted to close the Company's fundraising after just seven weeks, with funds allotted shortly after the end of the financial year. We thank you for your ongoing support of the Company.

Financial Performance

In 2021, the Company delivered a 14.5 pence per ordinary share increase in Total Return, which is equivalent to 26.4 per cent of the opening net asset value at 31 December 2020. Total Return is now 139.5 pence per ordinary share.

This was driven by the portfolio, which generated a return of £26.0 million, 53.0 per cent over its opening value, of which £5.3 million was realised and £20.7 million unrealised. New and follow-on investments totalling £6.1 million were completed.

Realisations in the Year

Realisations of investments generated total proceeds of £10.3 million, a gain of £5.3 million over the opening carrying value and £8.0 million over the original cost. There were three significant realisations in the year: Deep Secure in July 2021; the partial realisation of Matillion in October 2021; and Tissuemed in December 2021. Additional proceeds of £1.4 million were generated from loan repayments.

The Deep Secure exit generated capital proceeds of £3.3 million, delivering a realised gain of £2.8 million above cost, an uplift of £1.3 million on the carrying value at the beginning of the year. Including income, the total return from this investment was £3.9 million over a 12 year holding period, producing an internal rate of return of 23 per cent and a multiple of 7.7x cost.

The Company realised 20 per cent of its investment in Matillion as part of its Series E funding round. The proceeds from this partial exit were £5.9 million, which represents an uplift on the carrying value at the beginning of the year of £3.4 million and a return to date of 3.3x the total cost of the Company's investment. The value of the Company's residual investment in Matillion is £25.1 million. This is an outstanding outcome to date, in a company which continues to experience fast growth.

The Tissuemed exit generated capital proceeds of £0.6 million delivering a realised gain of £0.5 million above cost, an uplift of £0.5 million on the carrying value at the beginning of the year. Including income, the total return from this investment was £0.6 million over a 16 year holding period, producing an internal rate of return of 18 per cent and a multiple of 13.1x cost.

New Investments

Three new investments were made in the year, totalling £3.4 million. In our continued support of the portfolio, seven companies received follow-on funding in the year, totalling £2.7 million in aggregate. The new investments are:

Investment	Sector
Outpost	Visual effects for film and TV
Vuealta	Business planning software and services
Vypr	Cloud-based data validation platform

Financial Results

During the year, the Board paid interim dividends of 8.0 pence per ordinary share in respect of the year ended 31 December 2021, bringing the cumulative dividends paid to 31 December 2021 to 78.0 pence per ordinary share.

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 2020		55.0	70,929
Increase in portfolio value	14.6		20,702
Gain on disposal of investments	3.8		5,342
Gain arising from the portfolio	18.4		26,044
Net operating costs	(0.8)		(1,248)
Incentive fee	(3.1)		(4,407)
Issue/(buy-back) of new shares	-		7,072
Total Return in year		14.5	27,461
NAV before the payment of dividends		69.5	98,390
Dividends paid		(8.0)	(11,015)
NAV at 31 December 2021		61.5	87,375
Cumulative dividends paid		78.0	
Total Return:	at 31 December 2021	139.5	
	at 31 December 2020	125.0	

The charts on page 12 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 £49.1 million, delivered a return over the year of £26.0 million.

The current portfolio's net valuation increased by £20.7 million. Within this there were valuation gains of £24.5 million, offset by £3.8 million of downward movements.

As anticipated by the impact of the changes to VCT regulations in 2015, the composition of the portfolio continues to evolve towards younger, higher growth companies which are reinvesting earnings for further growth. This, along with the ongoing realisation of earlier, more income-focused investments, results in the ongoing reduction of the Company's income. During the year, income was £0.7 million, compared to £0.8 million (excluding the exceptional £1.9 million dividend received from ACC Aviation) in the previous financial year and £1.1 million in 2019. This trend is expected to continue as the proportion of new investments continues to grow.

Chairman's Statement (continued)

SHAREHOLDER RELATIONS

Annual General Meeting 13 June 2022

The Annual General Meeting of the Company will be held at 12:00 noon on 13 June 2022 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.

Dividends

Dividends paid in the year totalled 8.0 pence per ordinary share. These comprised interim dividends of 8.0 pence per ordinary share for the year ended 31 December 2021. Cumulative dividends paid as at 31 December 2021 were 78.0 pence per ordinary share.

An interim dividend for the year ending 31 December 2022 of 1.5 pence per ordinary share will be paid on 6 May 2022, to shareholders on the register at 1 April 2022.

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 main advantages of the DRIS are:

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

For the financial year ended 31 December 2021, £2.3 million was re-invested by way of the DRIS, from overall dividend proceeds of £11.0 million.

Liquidity and Fundraising

The Company announced a new share offer on 2 February 2021, alongside British Smaller Companies VCT plc, with the intention of raising up to £7.05 million. The related allotment took place on 11 March 2021, following which the Company received net proceeds of £6.8 million.

At 31 December 2021 the Company's cash reserves of £21.2 million represented 24.3 per cent of net assets.

Having previously assessed its expected cash requirements the Company announced a new share offer on 22 September 2021, alongside British Smaller Companies VCT plc, with the intention of raising up to £60 million, in aggregate which included an over-allotment facility of £20 million, in aggregate. This was fully subscribed and closed on 12 November 2021. The related allotment of 40,224,521 ordinary shares took place post year-end, on 7 January 2022, following which the Company received net proceeds of £24.2 million.

Share Premium Cancellation

Following shareholder approval at a General Meeting, the Company, subject to the sanction of the High Court, is cancelling the balance of its Share Premium, £44.3 million, which will be transferred to the Capital Reserve. This will give the Company greater flexibility to continue to pay regular dividends to shareholders and to provide its periodic offer to buy back shares from shareholders. As set out on page 63 this will become available for distribution, if approved, at various times over the period to 1 January 2026.

Shareholder Relations

The electronic communications policy continues to be a success, with 82 per cent of shareholders now receiving communications in this way. Documents such as the annual report are published on the website www.bscfunds.com rather than by post, saving on printing costs, as well as being more environmentally friendly.

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

In 2021, we again had to change our plans for the Investor Workshops, subsequently holding two webinars in conjunction with British Smaller Companies VCT plc, on 25 June 2021 and 9 December 2021.

We are pleased to announce the return of an in-person Investor Workshop, to be held jointly with British Smaller Companies VCT plc on 29 June 2022 at 1 Great George Street, Westminster, London SW1P 3AA. After the success of the webinars over the past couple of years, we will also continue providing these once per year, with the next event planned for December 2022.

Post Balance Sheet Events

As noted above, the Company allotted a successful £24.2 million fundraising on 7 January 2022.

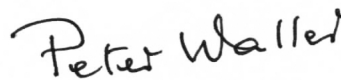
Ukraine

During the build up to and subsequent to the recent invasion of Ukraine by Russia, we have been closely monitoring the impact of the war on our portfolio. There is minimal direct impact, which has principally been in a small number of cases where portfolio company software development teams have been based in Ukraine. From a business perspective, continuity of supply and service has been secured, although we are aware of a small number of developers who we believe are directly caught in the conflict and our thoughts are with them and all those suffering the humanitarian impact of the war.

Outlook

There's little doubt that current market conditions are not straightforward. Many companies are currently navigating challenges from supply chain inflation, a highly competitive market for hiring talent as well as political challenges, both domestically and overseas. However, as we have seen through the pandemic the value of having the right management teams in place, and the right supportive advisers at their side, provides confidence that the portfolio has the capacity to chart a path through the current conditions and achieve success.

Thanks to investors' continued support, the Company is well positioned to both continue to support the existing portfolio and to continue to seek out the most promising new opportunities to augment the portfolio. I look forward to updating investors on this progress later in the year.



Peter Waller
Chairman

21 March 2022

Objectives and Key Policies

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

Investment Policy

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

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

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

Borrowing

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

Co-investment

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

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

Asset Mix

Cash which is pending investment in VCT-qualifying securities is primarily held in interest bearing instant access and short-notice bank accounts.

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom are non-executive, 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 36.

Processes and Operations

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

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

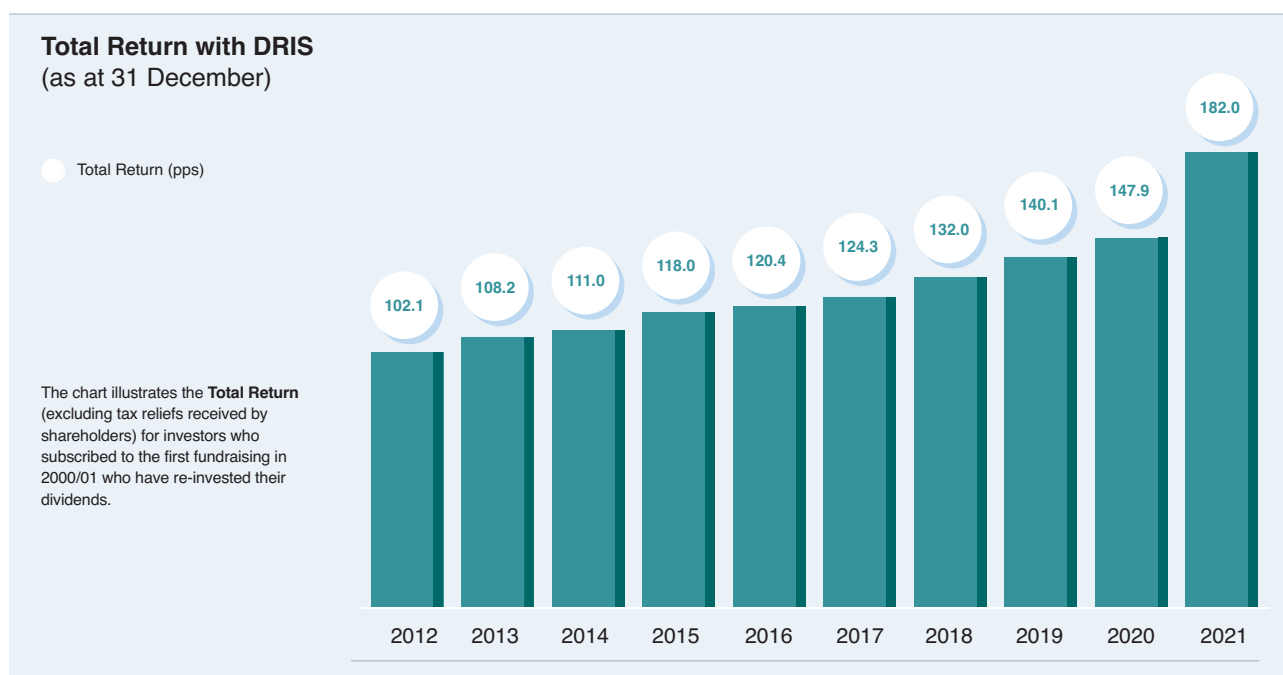
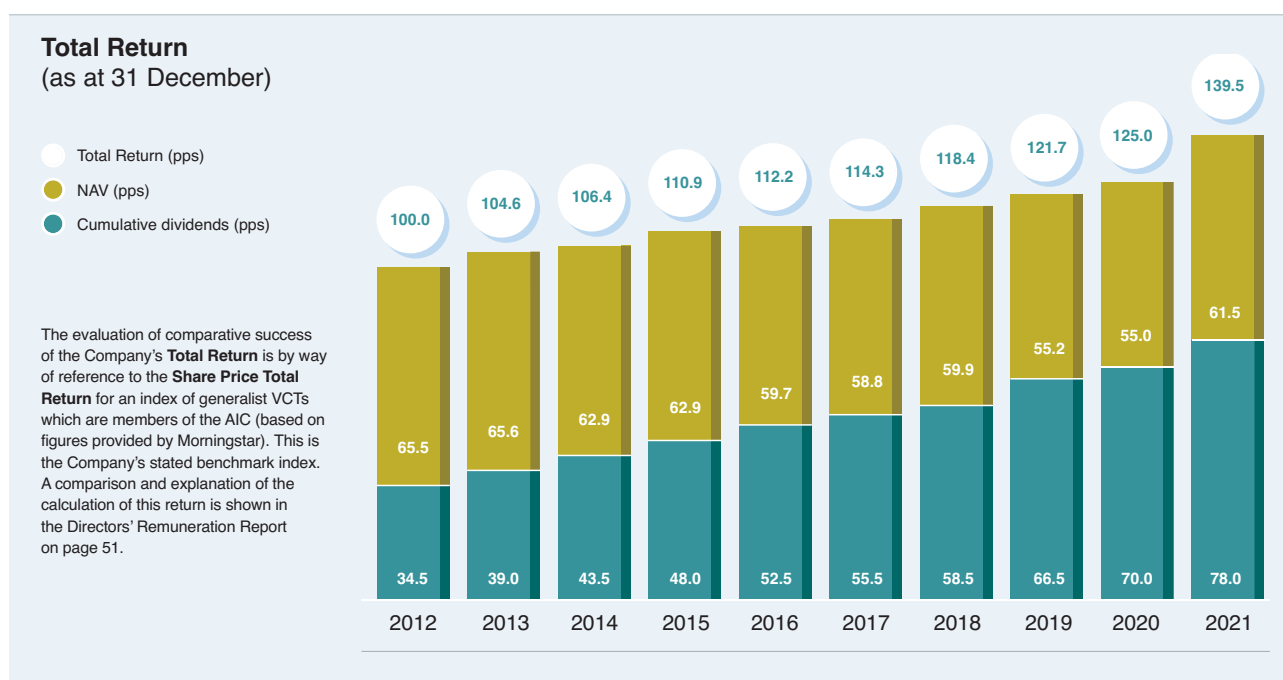
The Board reviews the terms of YFM Private Equity Limited's appointment as Manager at least annually.

YFM Private Equity Limited has performed investment advisory, management, 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.

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

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

The Board considers Total Return 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	Offer price ¹ Pence	NAV at 31 December 2021 Pence	Cumulative dividends paid since fundraising Pence	Total Return to date ² Pence	IRR ³ %
2001	100.0	61.5	78.0	139.5	2.1%
2002	100.0	61.5	78.0	139.5	2.3%
2010	77.3	61.5	56.0	117.5	4.9%
2011	70.3	61.5	52.0	113.5	6.1%
2012	70.5	61.5	48.0	109.5	6.1%
2013	68.0	61.5	43.5	105.0	6.6%
2014	68.0	61.5	39.0	100.5	6.5%
2015	65.0	61.5	34.5	96.0	7.4%
2016	63.0	61.5	30.0	91.5	7.7%
2017	62.2	61.5	25.5	87.0	8.3%
2018	59.4	61.5	22.5	84.0	10.9%
2019	56.3	61.5	14.5	76.0	12.5%

Notes

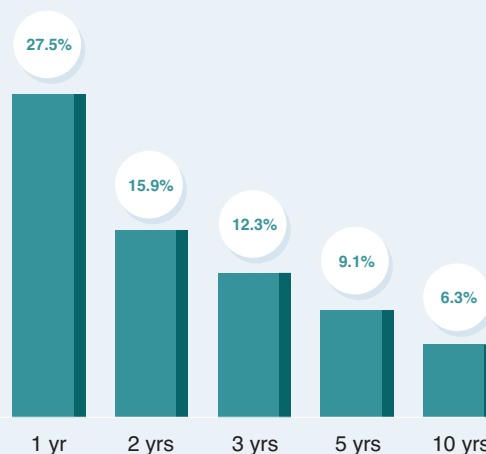
- The offer price for the relevant year excluding the benefit of income tax relief available to investors at the time of the offer.
- Total Return to date is cumulative dividends paid plus the 31 December 2021 net asset value in pence per ordinary share. This is an Alternative Performance Measure.
- 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 2021 net asset value per ordinary share. This excludes the benefit of any initial tax relief.

Set out below is the average annual annualised investment rate of return over 1, 2, 3, 5 and 10 years to 31 December 2021. The average annual investment rate of return is calculated with reference to the cumulative dividends paid in the period plus the unaudited NAV at 31 December 2021.

Average investment rate of return p.a. over 1, 2, 3, 5 and 10 year periods* (to 31 December 2021)

● Excluding the benefits of all tax reliefs

* includes the benefits of the timing of dividend receipts.



Key Performance Indicators (continued)

Expenses

Ongoing Charges

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

	Year to 31 December 2021 (%)	Year to 31 December 2020 (%)
Ongoing Charges figure*	2.16	2.45

* Alternative Performance Measure

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

A principal risk facing the Company is the retention of its VCT qualifying status. The Board receives regular reports on compliance with the VCT legislative tests from its Manager. In addition, the Board receives formal reports from its VCT Status Adviser (Philip Hare & Associates LLP) twice a year. The Board can confirm that during the period, all of the VCT legislative tests have been met.

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

Income Test

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

Retained Income Test

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

Qualifying Investments Test

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

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

Eligible Shares Test

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

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

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

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

Investment Limits

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

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

Maximum Single Investment Test

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

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

Further restrictions placed on VCTs are:

Dividends from Cancelled Share Premium

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

The Company is cancelling, subject to the approval of the High Court, the balance of its Share Premium, £44.3 million, which will be transferred to the Capital Reserve. As set out on page 63, this will become available for distribution, if approved, at various times over the period to 1 January 2026.

Other

No more than seven years can have elapsed since the first commercial sale achieved by the business (ten years in the case of a Knowledge Intensive Company), unless:

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

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

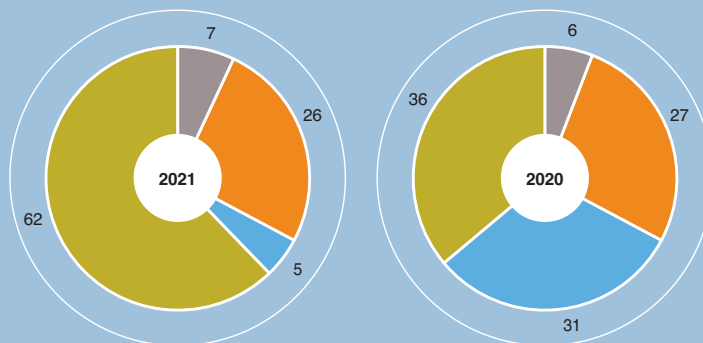
Portfolio Composition

Portfolio Structure

The broad range of the investment portfolio is illustrated with 62 per cent of the portfolio valuation being held for more than five years, whilst 85 per cent is held at cost or above. 21 per cent of the portfolio value is held in loans and preference shares, although loans now account for only 5 per cent of the value.

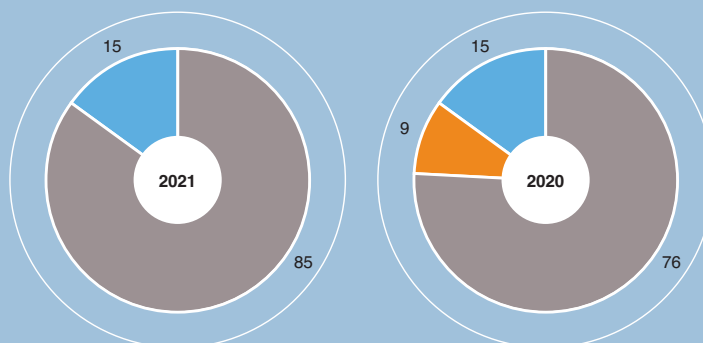
AGE OF INVESTMENTS (%)

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



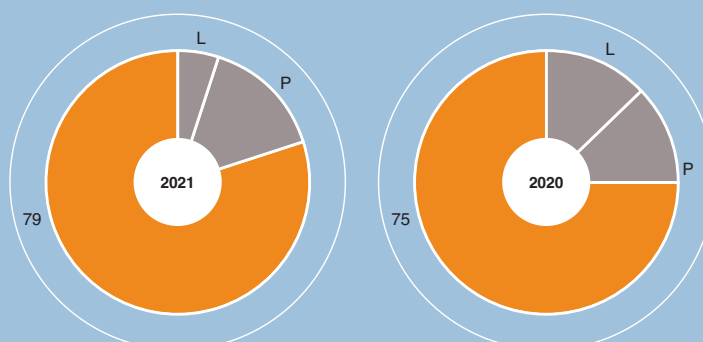
VALUE COMPARED TO COST (%)

- Value above cost
- At cost
- Value below cost



INVESTMENT INSTRUMENT (%)

- Loan
 - Preference shares
 - Equity
- } 2021 - 21%
} 2020 - 25%

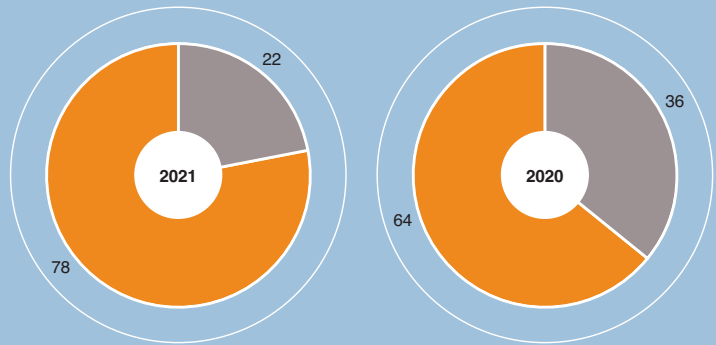


Portfolio Diversity

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.

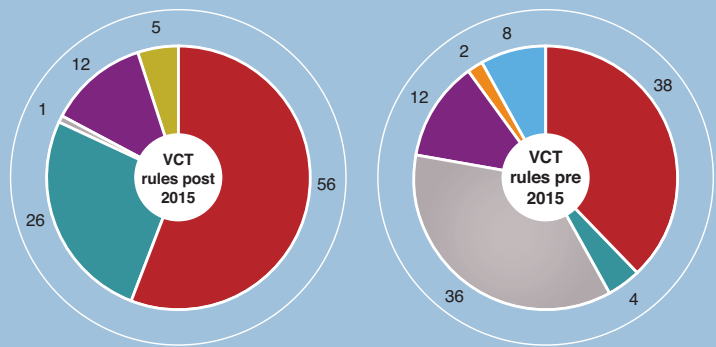
VCT RULES (%)

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



INDUSTRY SECTOR (%)

- Data & Analytics
- Software Applications
- Business Services
- New Media
- Advanced Manufacturing
- Retail & Brands
- Other



Investment Review

The portfolio delivered a strong performance in the year, with a return of £26.0 million on the opening value of £49.1 million.

The Portfolio

£70.0 million

Fair value of the portfolio
(2020: £49.1 million)

22

Number of portfolio companies with a value of more than £0.5 million
(2020: 19)

£0.7 million

Income from the portfolio
(2020: £0.8 million*)

£6.1 million

Level of investment
(2020: £4.0 million)

£26.0 million

Return from portfolio
(2020: £5.2 million*)

* excluding exceptional dividend of £1.9 million received from ACC Aviation

The portfolio has performed well during the period, adding £25.9 million of value on the opening fair value of £49.1 million. The composition of investments continues to show its dynamism, with £6.2 million invested in the period and cash proceeds of £11.2 million received.

**Table A
Portfolio**

	£million
Opening fair value at 1 January 2021	49.1
Additions	6.2
Disposal proceeds*	(11.2)
Valuation movement	25.9
Closing fair value at 31 December 2021	70.0

* excluding deferred consideration

At 31 December 2021 the investment portfolio was valued at £70.0 million, representing 80.1 per cent of net assets (69.2 per cent at 31 December 2020). Cash and fixed term deposits at 31 December 2021 of £21.2 million represented 24.3 per cent of net assets (29.6 per cent at 31 December 2020).

Fair value changes

The ongoing portfolio delivered a value gain of £20.7 million in the year. While Matillion continues to be a significant driver of value, it is pleasing to see the fair value increases arising across a range of companies, including tech-focused businesses such as Force24 and Elucidat, as well as companies benefiting from the ongoing post-pandemic recovery of the retail sector, such as Tonkotsu and Frescobol.

Some decreases in value have been seen; Arraco and Arcus Global have both struggled somewhat over the past 12 months, but we continue to work closely with the companies' management teams to navigate their current challenges.

A further £5.2 million of value arose from investments which were realised in the year, including the partial realisation of Matillion (£3.4 million), Deep Secure (£1.3 million) and Tissuemed (£0.5 million).

Table B
Investment Portfolio

	£million	%
Gain in fair value	20.7	80
Gain on disposal over opening value	5.2	20
Valuation movement above	25.9	100
Deferred proceeds received in respect of assets previously disposed of	0.1	-
Gain arising from the portfolio	26.0	100

Other Significant Investment Movements

Investments

During the year ended 31 December 2021, the Company completed ten investments, totalling £6.1 million. This comprised three new investments of £3.4 million and seven follow-on investments of £2.7 million. The analysis of these investments is shown in Table C. The case study on page 24 gives more information on the investment in Outpost.

Table C
Investments

Company	New £million	Investments made Follow-on £million	Total £million
Vuealta	1.4	-	1.4
Outpost	1.0	-	1.0
Vypr	1.0	-	1.0
Wooshii	-	1.0	1.0
SharpCloud	-	0.8	0.8
Sipsynergy	-	0.3	0.3
Other follow-on investments	-	0.6	0.6
Invested in the year	3.4	2.7	6.1
Capitalised income			0.1
Total additions in the year			6.2

Investment Review (continued)

Disposal of Investments

During the year to 31 December 2021 the Company received proceeds from disposals and repayments of loans of £11.7 million, a gain of £5.3 million over the opening carrying value and £7.7 million over cost. This included the very successful realisation of Deep Secure

and the partial realisation of Matillion. The Company's investment in Friska was disposed of for nil proceeds; the investment had been fully written down in previous periods. Further details are given in the Chairman's statement on page 6.

Table D
Disposal of Investments

	Net proceeds from sale of investments £million	Opening value 31 December 2020 £million	Gain on opening value £million
Total investment disposals	11.7	6.4	5.3

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 2021 the portfolio was valued at £70.0 million, comprising wholly of unquoted investments. An analysis of the movements in the year is shown on page 75.

The portfolio has 22 investments valued above £0.5 million (2020: 19) with the single largest investment, Matillion, representing 28.7 per cent of the net asset value.

The charts on pages 16 and 17 show the diversity of the portfolio, splitting it by industry sector, age of investment, investment instrument and the valuation compared to cost.

Valuation Policy

Unquoted investments are valued in accordance with both IFRS 13 'Fair Value Measurement' and International Private Equity and Venture Capital Guidelines, December 2018 edition (IPEV Guidelines).

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

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

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

Table E shows the value of investments within each valuation category as at 31 December 2021; no investments are currently valued using discounted cash flow methodologies.

With continued investment in earlier stage businesses that are investing for growth, an increasing proportion of valuations are based on revenue multiples.

Table E
Valuation Policy

	Valuation £million	2021 % of portfolio by value	2020 % of portfolio by value
Revenue multiple	54.6	78	60
Earnings multiple	13.4	19	29
Net assets, reviewed for change in fair value	1.9	3	4
Cost or price of recent investment, reviewed for change in fair value	0.1	-	7
Total	70.0	100	100

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

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

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



Grow our economy



Improve our society



Value their people



Protect the environment

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

Sustainable Investment Principles

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

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

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

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

Investment Review (continued)

> Pre-investment Phase:

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

> Portfolio Phase:

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

> Reporting:

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

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

ESG Performance Data and Reporting

ESG KPI data analysis

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

Annual company specific ESG performance progress report

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

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

2021 ESG KPI Report for Investments held in YFM's VCT funds



Growing our economy

- > £31.3 million of R&D investment during 2021
- > £37.8 million of export sales achieved in 2021



Improving our society

- > 95 per cent of companies were independently chaired in 2021
- > 40 per cent of companies had female directors on boards, with 25 per cent having a female CEO
- > 25 per cent of businesses had a designated board member with responsibility for improving ESG issues



Valuing our people

- > 30 per cent of the portfolio workforce was female in 2021
- > 866 new jobs were created from date of investment to 2021
- > 65 per cent had mental wellbeing programmes in place and 55 per cent held regular employee engagement surveys
- > Over 22,000 hours of training was given to employees



Protecting our environment

- > 60 per cent of companies had active carbon reduction strategies (up from 15 per cent at investment)
- > 25 per cent offset all or a defined portion of their carbon impact
- > But only 15 per cent formally measure their carbon footprint

Summary and Outlook

It has been pleasing to see the continued positive progression of the portfolio during the year, both from the continued growth of the Company's technology-enabled and software-focused investments, but also from the recovery of businesses which were heavily impacted by the pandemic.

We continue to help all of our companies navigate a fluid economic environment, with many facing obstacles relating to inflation, hiring of talent and an ever-changing political landscape.

Despite these challenges, we continue to see a strong pipeline of potential investments in a range of growth companies, as well as opportunities to further support the continued growth of the current portfolio. We thank investors for their ongoing support from the Company's January 2022 fundraising, and are looking forward to putting the funds raised to work.

David Hall
YFM Private Equity Limited
21 March 2022

Case Studies



AMOUNT INVESTED

£1.0 million

BUSINESS AT INVESTMENT

A visual effects (“VFX”) company supplying subscription video on demand (eg. Netflix), television and feature film markets.

THE INVESTMENT

Funding to expand operations globally.

RATIONALE FOR THE DEAL

Bolstered by the rapid growth in video on demand companies such as Netflix and Amazon, VFX studios are experiencing unprecedented demand for their work. Differentiated from competitors by a distinctive culture, Outpost is able to attract the best talent and consequently, delivers high quality work on time and in budget. This has resulted in a brand valued by customers and poised for rapid growth.

SINCE INVESTMENT

The business was significantly impacted by Covid-19 in the initial phase of the investment. As the effects of Covid abated, Outpost accelerated revenues and opened or expanded offices in LA, Montreal and Mumbai as well as its presence in the UK and has won significant work on high quality productions since investment.



AMOUNT INVESTED

£2.0 million

BUSINESS AT INVESTMENT

A lead platform connecting customers with financial advisors covering investment mortgages and life insurance advice.

THE INVESTMENT

Growth capital to enhance the platform and broaden the service offering at the same time increasing consumer awareness of the marketplace.

RATIONALE FOR THE DEAL

A leader in its field, with the opportunity to build additional services, moving into other market sectors with the potential for expansion into overseas geographies.

SINCE INVESTMENT

Unbiased has demonstrated the ability to grow its offering into multiple service verticals, increasing the value of its offering, expanding its reach to over 27,000 IFAs to help all access financial advice.

Portfolio Summary

at 31 December 2021

Page No	Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 December 2021 £000	Proceeds to date £000	Realised & unrealised value to date* £000
28	Matillion Limited	Nov-16	Manchester	Data & Analytics	1,456	25,050	5,946	30,996
28	Springboard Research Holdings Limited	Oct-14	Milton Keynes	Data & Analytics	1,881	3,959	120	4,079
29	Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,163	-	3,163
29	Wooshii Limited	May-19	London	New Media	2,440	3,162	-	3,162
29	Unbiased EC1 Limited	Dec-19	London	Software Applications	1,964	3,082	-	3,082
30	SharpCloud Software Limited	Oct-19	London	Data & Analytics	2,271	2,927	-	2,927
30	Elucidat Ltd	May-19	Brighton	Software Applications	1,800	2,926	-	2,926
30	Force24 Ltd	Nov-20	Leeds	Software Applications	1,600	2,773	-	2,773
31	ACC Aviation Group Limited**	Nov-14	Reigate	Business Services	145	2,450	1,233	3,683
31	KeTech Enterprises Limited	Nov-15	Nottingham	Data & Analytics	10	1,976	1,775	3,751
	Investment companies	Apr-15	-	-	2,500	1,895	-	1,895
	DisplayPlan Holdings Limited	Jan-12	Stevenage	New Media	70	1,891	820	2,711
	Ncam Technologies Limited	Mar-18	London	New Media	1,675	1,636	87	1,723
	Outpost VFX Limited	Feb-21	Bournemouth	New Media	1,000	1,614	-	1,614
	Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Software Applications	1,636	1,561	-	1,561
	Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,520	-	1,520
	Vuealta Group Limited	Sep-21	London	Software Applications	1,399	1,491	-	1,491
	Vypr Validation Technologies Limited	Jan-21	Manchester	Data & Analytics	1,000	1,386	-	1,386
	Arcus Global Limited	May-18	Cambridge	Software Applications	2,050	1,324	-	1,324
	Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	1,148	-	1,148
	Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software Applications	1,163	983	-	983
	Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data & Analytics	1,000	750	-	750
	e2E Engineering Limited	Sep-17	Welwyn Garden City	Business Services	600	688	-	688
	Other investments below £0.5 million				9,629	664	5,384	6,048
	Total investments				42,037	70,019	15,365	85,384
	Full disposals to date				37,885	-	56,000	56,000
	Total portfolio				79,922	70,019	71,365	141,384

* represents proceeds received to date plus the unrealised valuation at 31 December 2021

** additional ordinary dividends of £1.93 million have also been received

Summary of Portfolio Movement

since 31 December 2020

Name of Company	Investment valuation at 31 December 2020 £000	Disposal proceeds £000	Additions including capitalised income £000	Valuation gains including profits/(losses) on disposal £000	Investment valuation at 31 December 2021 £000
Matillion Limited	12,695	(5,946)	-	18,301	25,050
Force24 Ltd	1,600	-	-	1,173	2,773
Tonkotsu Limited	605	-	-	915	1,520
Elucidat Limited	2,031	-	-	895	2,926
Frescobol Carioca Ltd	326	-	-	822	1,148
Outpost VFX Limited	-	-	1,000	614	1,614
Wooshii Limited	1,566	-	1,000	596	3,162
SharpCloud Software Limited	1,544	-	811	572	2,927
Unbiased EC1 Limited	2,512	-	-	570	3,082
Vypr Validation Technologies Limited	-	-	1,000	386	1,386
e2E Engineering Limited	434	-	-	254	688
Traveltek Group Holdings Limited	808	-	-	175	983
Sipsynergy (via Hosted Network Services Ltd)	1,113	-	327	121	1,561
Vuealta Group Limited	-	-	1,399	92	1,491
Ncam Technologies Limited	1,476	(87)	175	72	1,636
Other investments £0.5 million and below	109	-	160	41	310
Panintelligence (via Paninsight Limited)	1,000	-	-	(250)	750
Arcus Global Limited	2,160	-	100	(936)	1,324
Arraco Global Markets Limited	1,500	-	120	(1,620)	-
Investments made after November 2015	31,479	(6,033)	6,092	22,793	54,331
Deep-Secure Ltd	1,966	(3,279)	-	1,313	-
Springboard Research Holdings Limited	2,678	-	59	1,222	3,959
KeTech Enterprises Limited	2,601	(1,275)	-	650	1,976
Displayplan Holdings Limited	1,267	-	-	624	1,891
Tissuemed Limited	65	(599)	-	534	-
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	3,156	-	-	7	3,163
ACC Aviation Group Limited	2,993	-	-	(543)	2,450
Other investments £0.5 million and below	2,910	-	-	(661)	2,249
Investments made prior to November 2015	17,636	(5,153)	59	3,146	15,688
Total investments	49,115	(11,186)	6,151	25,939	70,019

Investee Company Information



Data & Analytics



Software Applications



New Media



Business Services



Retail and Brands



Advanced Manufacturing



Other



Portfolio

The top 10 investments had a combined value of £51.5 million, 73.6 per cent of the total portfolio.

Matillion Limited Manchester

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

www.matillion.com



Cost:	£1,456,000
Valuation:	£25,050,000
Date of initial investment:	November 2016
Equity held:	2.4%
Valuation basis:	Revenue multiple



Year ended 31 December	2020 \$million	2019 \$million
Revenue	29.98	16.05
LBITA	(11.57)	(16.43)
Loss before tax	(11.89)	(15.53)
Retained losses	(36.88)	(24.83)
Net assets	22.89	33.18

Springboard Research Holdings Limited Milton Keynes

Springboard Research is the leading provider of performance insights for the retail industry across Europe and North America. The company has seen a significant increase in usage of its products as the industry reacts to the new retail environment created by Covid-19.

www.spring-board.info



Cost:	£1,881,000
Valuation:	£3,959,000
Date of initial investment:	October 2014
Equity held:	13.0%
Valuation basis:	Revenue multiple
Interest:	£47,566 (2020 £94,632)
Dividends:	£59,136 (2020 £59,298)



Year ended 31 December	2020 £million	2019 £million
Revenue	7.39	6.34
EBITA	1.77	0.50
Profit (loss) before tax	0.51	(0.70)
Retained losses	(3.14)	(3.46)
Net liabilities	(0.01)	(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:	£3,163,000
Date of initial investment:	May 2014
Equity held:	17.8%
Valuation basis:	Earnings multiple
Interest:	£39,316 (2020 £39,423)
Dividends:	£60,894 (2020 £60,894)

Year ended 30 September	2020 £million	2019 £million
Revenue	27.55	30.01
EBITA	1.42	1.51
Profit (loss) before tax	0.27	(0.50)
Retained losses	(3.90)	(3.93)
Net assets	1.64	1.61

IntelligentOffice^{UK}

Wooshii Limited

London

Wooshii is a global video production agency using technology to manage a geographically distributed network of creative professionals. The company offers clients the convenience and quality of a traditional video marketing agency combined with cutting edge video management tools. It has an impressive client list including Coca Cola, Google, Microsoft and Amazon.

www.wooshiivideoagency.com



Cost:	£2,440,000
Valuation:	£3,162,000
Date of initial investment:	May 2019
Equity held:	13.3%
Valuation basis:	Revenue multiple
Dividends:	£90,074 (2020 £64,978)

Year ended 31 March	2021* £million	2020* £million
Revenue	2.63	2.18
LBITA	(1.07)	(1.73)
Loss before tax	(1.24)	(1.87)
Retained losses	(4.52)	(3.39)
Net liabilities	(2.95)	(1.83)

* Unaudited

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:	£3,082,000
Date of initial investment:	December 2019
Equity held:	10.6%
Valuation basis:	Revenue multiple

Year ended 30 September	2020 £million	2019 £million
Revenue	5.02	4.02
(LBITA) EBITA	(0.83)	0.20
(Loss) profit before tax	(1.10)	0.06
Retained (losses) profits	(0.96)	0.23
Net (liabilities) assets	(0.96)	0.23

Accounts for the trading company Unbiased Limited are shown

SharpCloud Software Limited

London



SharpCloud provides a leading decision making platform for managers. It provides the ability to aggregate fragmented data into easily interpretable top-down output that shortens decision making cycles and eliminates decision waste.

www.sharpcloud.com

Cost: £2,271,000
 Valuation: £2,927,000
 Date of initial investment: October 2019
 Equity held: 13.0%
 Valuation basis: Revenue multiple

Year ended 31 December	2020* £million	2019* £million
Revenue	1.65	1.24
LBITA	(2.09)	(0.58)
Loss before tax	(2.20)	(0.74)
Retained losses	(3.25)	(0.87)
Net assets	0.74	3.12

* Unaudited

**Elucidat Ltd**

Brighton



Elucidat provides a cloud-based e-learning authoring platform which allows its customers to drive down the cost of producing business-critical training. The company has impressive customer retention and a client list including Tesco, Target and Walmart.

www.elucidat.com

Cost: £1,800,000
 Valuation: £2,926,000
 Date of initial investment: May 2019
 Equity held: 8.1%
 Valuation basis: Revenue multiple
 Interest: £20,000 (2020 £877)

Year ended 31 December	2020 £million	2019* £million
Revenue	3.00	1.42
LBITA	(0.49)	(0.24)
Loss before tax	(0.92)	(0.41)
Retained losses	(1.12)	(0.40)
Net assets	2.41	3.12

* unaudited 7 months to 31 December 2019.

**Force24 Ltd**

Leeds



Force24 provides cloud-based personalised marketing automation technology trusted by over 350 businesses including household brands such as Michelin, Tarmac and Children In Need.

www.force24.co.uk

Cost: £1,600,000
 Valuation: £2,773,000
 Date of initial investment: November 2020
 Equity held: 11.4%
 Valuation basis: Revenue multiple

Year ended 31 December	2020 £million	2019 £million
Revenue	3.48	2.98
(LBITA) EBITA	(0.38)	0.23
Loss before tax	(0.66)	(0.01)
Retained (losses) profits	(0.22)	0.63
Net assets	3.59	0.82



ACC Aviation Group Limited

Reigate



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

www.accaviation.com

Cost:	£145,000
Valuation:	£2,450,000
Date of initial investment:	November 2014
Equity held:	18.5%
Valuation basis:	Earnings multiple
Dividends:	£nil (2020 £1,934,000)



Year ended 31 December	2020 £million	2019 £million
Revenue	34.91	175.90
(LBITA) EBITA	(0.67)	12.24
(Loss) profit before tax	(3.75)	9.27
Retained profits	12.28	8.04
Net assets	12.30	26.21

KeTech Enterprises Limited

Nottingham



KeTech specialises in the provision of enhanced, real-time information systems for transport operators and passengers. It offers a range of products including train safety and passenger information systems. Clients include mainline train operators and London Underground.

www.ketech.com

Cost:	£10,000
Valuation:	£1,976,000
Date of initial investment:	November 2015
Equity held:	15.8%
Valuation basis:	Earnings multiple
Interest:	£50,987 (2020 £93,472)
Dividends:	£44,198 (2020 £48,300)



Year ended 31 August	2020 £million	2019 £million
Revenue	5.43	6.01
EBITA	0.87	1.06
Profit before tax	0.30	0.82
Retained profits	0.17	0.67
Net assets	0.67	0.90

Risk Factors

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

The Covid-19 pandemic and the current conflict in Ukraine created heightened uncertainty for the Company, but the Board do not consider that it has changed the nature of

the principal risks. The Board considers that the present processes for mitigating those risks remain appropriate.

The Board seeks to mitigate its emerging and principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board rigorously applies 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, can be found 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, which would result in qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained, while future dividends paid by the Company would be 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. These tests are closely monitored by the Manager on an ongoing basis and regularly reported to and reviewed by the Board. The Company also makes use of external experts, who review the Company's compliance with VCT rules on a regular basis. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" on pages 14 and 15.

Economic

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

Mitigation – As well as the response to the '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 Manager actively monitors investee company performance, which provides quality information for monthly reviews of the portfolio. The Manager 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 underperformance and poor returns to shareholders. The quality of enquiries, investments, investee company management teams and monitoring, and the risk of not identifying investee company difficulties may lead to underperformance by the Company and poor returns to shareholders.

Mitigation – The Board reviews strategy annually. At each of the Board meetings, the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment and peer group activity.

The Manager carries out due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible, a non-executive director will be appointed to the board of the investee company on behalf of the Company.

Regulatory

Risk – The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, the Financial Conduct Authority's Prospectus Rules and UK adopted international accounting standards; it is also subject to the AIFMD EU Exit Regulations. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Mitigation – The Manager and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate.

The Manager ensures that it hires suitably qualified members of staff who are experienced with regulatory requirements and relevant accounting standards.

The key controls around regulatory compliance are explained on pages 47 and 48.

Reputational

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

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

Operational

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

Mitigation – The Manager has a documented business continuity plan, which provides for back-up services in the event of a system breakdown. The Manager's systems are protected against viruses and other cyber-attacks. The Manager implemented its business continuity plan through the Covid-19 pandemic with no loss of service.

Cyber/IT

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

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

Risk Factors (continued)

Climate

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

Mitigation – In 2021, the Manager published its first Sustainable Investment Report, detailing the steps it has taken in this area to date. The Manager is a signatory of the UN's Principles for Responsible Investment; it has published its Sustainable Investment Principles; and has rewritten its Ethical Policy. Its investment process now includes a set of over 50 thematic ESG KPIs, with which it is now tracking its portfolio over time across four key areas: Improve our Society; Protect our Environment; Grow our Economy; and Value our People. Further details can be found on pages 21 to 23.

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.

By their nature, investments in unquoted companies involve a higher degree of risk than investments in companies trading on public markets. In particular, smaller companies often have limited product lines, markets or financial resources; they may be dependent on a smaller number of key individuals.

For quoted companies, the fact that a share is traded on the public 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, smaller companies' shares are often less liquid than larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

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

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

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

The Manager regularly reviews its exit plans for investee companies to allow the assets to be optimised to identify a willing buyer. As part of a planned exit, the assistance of a third party adviser will normally be sought, with a view to identifying the largest number of possible purchasers.

Other Matters

Section 172 Statement

This Section 172 Statement should be read in conjunction with the other contents of the Strategic Report, on pages 6 to 36.

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

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

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

Key Stakeholders

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

Investors

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

The Company encourages shareholders to attend its Annual General Meeting (AGM), but unfortunately the 2021 AGM had to be held as a "closed" meeting due to the restrictions on social gatherings at the time. It was not possible to hold the AGM electronically because such general meetings were not yet permitted by the Company's Articles of Association and the legislation permitting electronic general meetings had not been passed at the time. A resolution was presented and passed at the 2021 AGM to allow electronic general meetings to be held in future.

Along with British Smaller Companies VCT plc, the Company normally holds an annual Investor Workshop, which is always well attended. As with the 2021 AGM, it was not possible to hold this in its normal format, so two online workshops were held, in June 2021 and December 2021, which were attended by almost 200 shareholders. The Manager also carried out a shareholder survey during 2021.

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

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

After carefully considering its funding needs, the Company announced a non-prospectus offer to raise up to £7.1 million on 2 February 2021. At the same time, the Company issued an unaudited net asset value per ordinary share as at 31 December 2020, following the material increase in the final quarter of 2020. The related allotment took place on 11 March 2021 following which your Company received net proceeds of £6.8 million.

On 22 September 2021, the Company issued a prospectus, alongside British Smaller Companies VCT plc, to raise up to £60 million in aggregate for the 2021/22 tax year. The related allotment took place on 7 January 2022, following which the Company received net proceeds of £24.2 million.

During the year the Board kept its arrangements for dividends, share buy-backs and the dividend re-investment scheme under constant review. Along with normal dividends totalling 3.0 pence per ordinary share, a special dividend of 5.0 pence per ordinary share was paid in November 2021, following the partial realisation of the Company's investment in Matillion.

Manager

The Company's most important service provider is its Manager. There is regular contact with the Manager, and members of the Manager's board attend all of the Company's Board meetings. There is also an annual strategy meeting with the Manager, alongside the board of British Smaller Companies VCT plc.

Other Matters (continued)

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

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

Portfolio Companies

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

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

The Covid-19 pandemic highlighted the Manager's ongoing commitment to support its portfolio companies. At the start of the pandemic, the Manager put in place weekly monitoring reviews, as well as providing the portfolio with regular updates on the availability of government funding initiatives. Cash flow forecasts were kept under constant review and additional funding was provided where appropriate.

Employees

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

Environment and Community

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the Manager, YFM Private Equity Limited, who recognises the importance of its environmental responsibilities and has signed up to the United Nations' Principles for Responsible Investment.

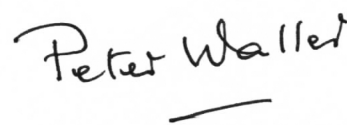
More details of the work that the Manager has done in this area are set out on pages 21 to 23. Its Sustainable Investment Policy can be found at www.yfmep.com/who-we-are/our_impact/.

Business Conduct

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

- > It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships;
- > The directors of the Company, the Manager and any other service providers must not promise, offer, give, request, agree to receive or accept financial or other advantage in return for favourable treatment, to influence a business outcome or gain any business advantage on behalf of the Company or encourage others to do so;
- > The Company has communicated its anti-bribery policy to the Manager and its other service providers and, in turn, the Manager ensures that portfolio companies implement appropriate policies of their own; and
- > The Manager has its own Anti-Bribery and Anti-Slavery policies and ensures that portfolio companies adopt a similar policy.

The Strategic Report on pages 6 to 36 is approved by order of the Board.



Peter Waller
Chairman

21 March 2022

Directors



Peter Charles Waller *Chairman*

Peter Waller (appointed 1 November 2010) Chair of the board - 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.



Barbara Lawson Anderson

(appointed 1 October 2020) - is an experienced Non-Executive Director and Chair who has worked extensively with SMEs, third sector and PLCs in regulated sectors, international private companies and venture capital specialists. Amongst other roles, Barbara is currently Non-Executive Director and Chair of Audit & Risk at Sovereign Housing Association, Independent Board Member and Chair of Audit & Risk at SmartDCC Ltd and Non-Executive Director and Chair of the Remuneration Committee at British Business Bank plc. Her expertise includes innovation for growth and sustainability including ESG, strategic planning, start-up acceleration and business transformation.



Roger Steven McDowell

Roger McDowell (appointed 6 March 2019) Chair of the Audit & Risk Committee - 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, Avingtrans Plc, Flowtech Fluidpower Plc and Brand Architekts Group Plc and Non-Executive Director of Tribal Group Plc and Proteome Sciences Plc. Roger is Chairman of the Audit & Risks Committee at 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 2021

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2021.

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 36. The principal risks and uncertainties the Company faces are detailed on pages 32 to 34.

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 £20,389,000 (2020: £4,251,000).

During the year the Company paid a total of £11,015,000 (2020: £4,538,000) in dividends totalling 8.0 pence per ordinary share (2020: 3.5 pence). A detailed review can be found in note 5 on page 73.

The net asset value per ordinary share at 31 December 2021 was 61.5 pence (2020: 55.0 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 in view of the Company's activities and associated risks. The Company has a well-diversified portfolio with businesses in a variety of sectors, many of which are well funded. Some portfolio companies may require additional funding in the near- to medium-term in order to manage the impact of the Covid-19 pandemic; the Company is well placed to provide this, where appropriate.

The Company has a significant level of liquidity, further enhanced by the recent fundraising post-period-end. In addition, the Board has control over the Company's major outgoings, which predominantly comprise investments, dividends and share buybacks.

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

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report. As at 31 December 2021, the Company held cash balances and fixed term deposits with a combined value of £21,189,000 and raised additional net proceeds of £24,216,000 from the recent fundraising. Cash flow projections show the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of share buybacks and the dividend policy. In the year ended 31 December 2021, the Company's costs and discretionary expenditures were:

	£'000
Administrative expenses (before incentive fee)	1,909
Share buybacks	1,942
Dividends (before DRIS)	11,015
Total	14,866

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

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 believe that a period of three years is appropriate to assess the Company's viability because the Company is required to invest funds raised within this timeframe in order to retain its status as a VCT.

In making their assessment, the directors have reviewed the types of investment that the Company will be able to make under the current VCT legislation and they believe that the existing portfolio and future investments will be able to deliver the Company's objective "to maximise total return and provide investors with a long-term tax free dividend yield whilst maintaining the Company's status as a venture capital trust".

The directors have also taken into account the emerging and principal risks and their mitigation identified in the strategic report on pages 32 to 34, the nature of the Company's business, including its substantial reserves of cash following the recent fundraising, the potential of its venture capital portfolio to generate returns in the future and, as noted above, the ability of the directors to minimise the level of cash outflows, should this be necessary.

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.

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.

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 they ought to have taken as a director in order to make themselves 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

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. This authority will be renewed at the forthcoming AGM.

During the year, the Company purchased 3,553,377 ordinary shares of 10 pence each in the market (as disclosed in the table below), for aggregate consideration (including costs) of £1,942,000. These shares are held in treasury. The buyback was in accordance with the Company's buy-back policy, and under the authority set out above.

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 up to an aggregate nominal amount of £10,000,000 (equivalent to 100,000,000 shares), expiring on 10 September 2022.

This authority will be replaced by a new authority to issue shares up to an aggregate nominal amount of £10,000,000 at this year's Annual General Meeting.

12,756,951 shares were issued during the year arising from the Company's March 2021 fundraising. Further details are given in note 11 on page 83. A further 40,224,521 shares were issued on 7 January 2022 arising from the January 2022 fundraising.

In addition, the directors have authority to allot shares and waive pre-emption rights in the Company in connection with the Company's Dividend Re-investment Scheme (DRIS), up to an aggregate nominal amount of £2,000,000 (equivalent to 20,000,000 shares) until 7 May 2024.

During the year to 31 December 2021, a total of 3,995,494 ordinary shares were issued under the Company's DRIS.

Directors' Report (continued)

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)
25 March 2021	1,488,378	1.04%	51.33
24 June 2021	736,420	0.52%	53.04
27 September 2021	675,308	0.48%	59.40
15 December 2021	653,231	0.46%	57.69

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 Manager'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 is a low energy user and is therefore exempt from the reporting obligations under the Companies (Director's Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. 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 2021, 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 2021 and the date of this report.

Independent Auditor

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

The only audit-related assurance service provided by BDO LLP during the year was a review of the unaudited interim report for the six months ended 30 June 2021.

Financial Instruments

Details of the financial instruments held by the Company and the risks associated with them are set out on pages 84 to 89 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 50.

Events after the Balance Sheet Date

The Company announced a new share offer on 22 September 2021, alongside British Smaller Companies VCT plc, with the intention of raising up to £40 million, in aggregate with an over-allotment facility of £20 million, in aggregate. This was fully subscribed and closed on 12 November 2021. The related allotment of 40,224,521 ordinary shares took place post year-end, on 7 January 2022, following which the Company received net proceeds of £24.2 million.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 91 to 94 of these financial statements.

Ordinary Resolution

Resolution 7 is proposed to ensure the directors retain the authority to allot shares in the Company until the later of 13 September 2023 or the date of the 2023 Annual General Meeting up to an aggregate nominal amount of £10,000,000 (representing approximately 55 per cent of the issued ordinary share capital of the Company as at 21 March 2022, excluding treasury shares).

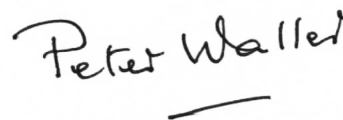
Special Resolutions

Resolution 8 is proposed to empower the directors to allot shares under the authority granted by resolution 7 and to sell treasury shares without regard to any rights of pre-emption on the part of the existing shareholders.

Resolution 9 is proposed to amend the Articles of Association to increase the cap on aggregate director fees to £110,000 in order to provide greater flexibility on the future composition of the Board.

Resolution 10 is proposed to empower the directors to buy back up to 27,338,720 ordinary shares.

This report was approved by the Board on 21 March 2022 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 2021 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.

Role of the Board

An agreement between the Company and YFM Private Equity Limited sets out the matters over which the Manager 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; 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, 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 of each other and also of the Company's Manager, 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 P C Waller fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 37.

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. Mr P C Waller's, Mr R S McDowell's and Ms B L Anderson'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, Ms B L Anderson, and Mr R S McDowell at this year's Annual General Meeting, because of their commitment, experience and contribution to the Company.

Meetings and Committees

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

The table on page 44 details the number and function of the meetings attended by each director.

During the year there were nine formal Board meetings, three Audit & Risk Committee meetings, two Nominations & Remuneration Committee meetings, one Allotment Committee meeting and one General meeting. The directors met via video, telephone and electronic conferences on 30 other occasions.

Corporate Governance (continued)

Meetings Attended

Director	Mr P C Waller	Mr R S McDowell	Ms B L Anderson	Total
Board meetings	9	9	9	9
Audit & Risk Committee	3	3	3	3
Nominations & Remuneration Committee	2	2	2	2
Allotment Committee	1	-	-	1
Video, telephone & electronic conferences	30	30	30	30
General meeting*	1	-	-	1
Total	46	44	44	46

* only the Chairman was permitted to attend due to government restrictions

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 Manager 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 2021. 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 C Waller continues to be effective.

Audit & Risk Committee

The Audit & Risk Committee consists of the directors of the Company. It 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 & Risk 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 Manager 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 agreement and examines the effectiveness of the Company's internal control and risk management systems, receives information from the Manager'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 & Risk Committee has written terms of reference, which clearly define 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.bsccfunds.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 2021 the Audit & Risk 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 the Manager'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 Audit & Risk 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 & Risk 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 Manager 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 & Risk Committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they were appropriate. The Manager confirmed to the Audit & Risk Committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, including IPEV's Special Valuation Guidance issued in March 2020 in response to the impact of the Covid-19 pandemic, taking account of the latest available information about investee companies; current market data; and a report from the auditor, including key audit findings in respect of the valuations.

Venture Capital Trust Status

The Manager confirmed to the Audit & Risk 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 Manager confirmed to the Audit & Risk Committee that it was not aware of any material unadjusted misstatements. Having reviewed the reports received from the Manager and the auditor, the Audit & Risk 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.

Corporate Governance (continued)

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 sixth year of office as auditor; in accordance with professional guidelines the initial engagement partner was rotated off the audit after five years; as such, this is the first year of the current partner's tenure.

Having completed its review, the Audit & Risk 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. The only audit-related assurance services provided by BDO LLP during the year was a review of the unaudited interim report for the six months ended 30 June 2021.

Nominations & Remuneration Committee

The Company has a Nominations & Remuneration Committee, which consists of the directors, all of whom are considered by the Board to be independent of the Manager. The Chairman of the Board acts as Chairman of the Nominations & Remuneration Committee.

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

Meetings are held as and when required. There were two Nominations & Remuneration Committee meetings 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 & Risk Committee.

The Directors' Remuneration Report may be found on pages 49 to 51.

The Director's Remuneration Report on page 49 includes details of how directors' remuneration is set.

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, all of whom are considered by the Board to be independent of the Manager. 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 of the net asset value of the Company 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.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting, at which the directors and representatives of the Manager are available in person to meet with and answer shareholders' questions. In addition, representatives of the Manager 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 chairpersons of some of the investee companies. During the year, the Company's Manager has held regular discussions with shareholders. A shareholder's survey was undertaken

during the year and 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 37.

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 37. 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, 7 August 2015 and 13 November 2019, 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 Company and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- > A clearly defined investment strategy for the Manager to the Company;
- > All decisions concerning the acquisition or disposal of investments are ratified by the Board;
- > 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 Manager 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 2021 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 32 to 34.

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 & Risk 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 Manager 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);

Corporate Governance (continued)

- > The Audit & Risk Committee's review of financial reporting and compliance (as set out on pages 44 to 46);
- > 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.

The Company was registered with the FCA as a Small Registered Alternative Fund Manager until 24 March 2020 and up to that date held its own investments. From that date, the Manager became the Company's Alternative Investment Fund Manager and took over responsibility for the custody of the Company's investments. 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 and held in custody by the Manager. No third party custodian has been appointed. The Company will take legal ownership of its assets.

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

Conflicts of Interest

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

Corporate Governance in Relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Manager 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.

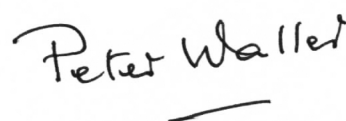
Co-Investment

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

Management

The Board has delegated the monitoring of the investment portfolio to the Manager.

This report was approved by the Board on 21 March 2022 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. An ordinary resolution for the approval of this report 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 16 June 2020. A resolution to approve the Directors' Remuneration Policy will be put to shareholders every three years.

The Board comprised three directors, all of whom are non-executive. The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee.

The Board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and nature 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, 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 properly oversee 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. All director's 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 37.

Statement by the Chairman of the Nominations Committee

The directors' fees payable by the Company have been fixed from 1 April 2018 by the Board at £40,000 per annum for the Chairman and £24,000 per annum for the other directors. The directors have reviewed the level of director's fees and agreed that with effect from 1 March 2022, they will be increased to £42,500 per annum for the Chairman and £26,500 per annum for the other directors. In accordance with the Directors' Remuneration Policy, the directors have agreed that they should be reviewed again in March 2023.

The cap on aggregate fees is £100,000. As noted on page 41, the Board proposes to increase the cap on aggregate fees to £110,000 in order to provide greater flexibility on the future composition of the Board.

Directors' Remuneration Report (continued)

Directors' Remuneration for the year ended 31 December 2021 (audited)

The directors who served in the year and the previous 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 (2020: none).

Table A
Total Fees Paid (audited)

	2021 £	2020 £
P C Waller	40,000	40,000
B L Anderson	24,000	6,000
R S McDowell	24,000	24,000
R M Pettigrew	-	24,000
	88,000	94,000

The annual salary of Ms B L Anderson from the date of her appointment as a non-executive director on 1 October 2020 is £24,000. There has been no change to the annual salaries of any of the directors in the year.

Directors and their Interests (audited)

The directors of the Company at 31 December 2021 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 2021	31 December 2020	31 December 2021	31 December 2020
P C Waller	44,439	44,439	0.03%	0.04%
B L Anderson	9,112	-	0.01%	-
R S McDowell	266,391	266,391	0.19%	0.21%

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

The number of ordinary shares allotted to the directors on 7 January 2022 as a result of the fundraising were as shown in Table C:

Table C

	Number of ordinary shares	Cumulative number of ordinary shares held
P C Waller	9,617	54,056
B L Anderson	323,920	333,032
R S McDowell	322,259	588,650

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

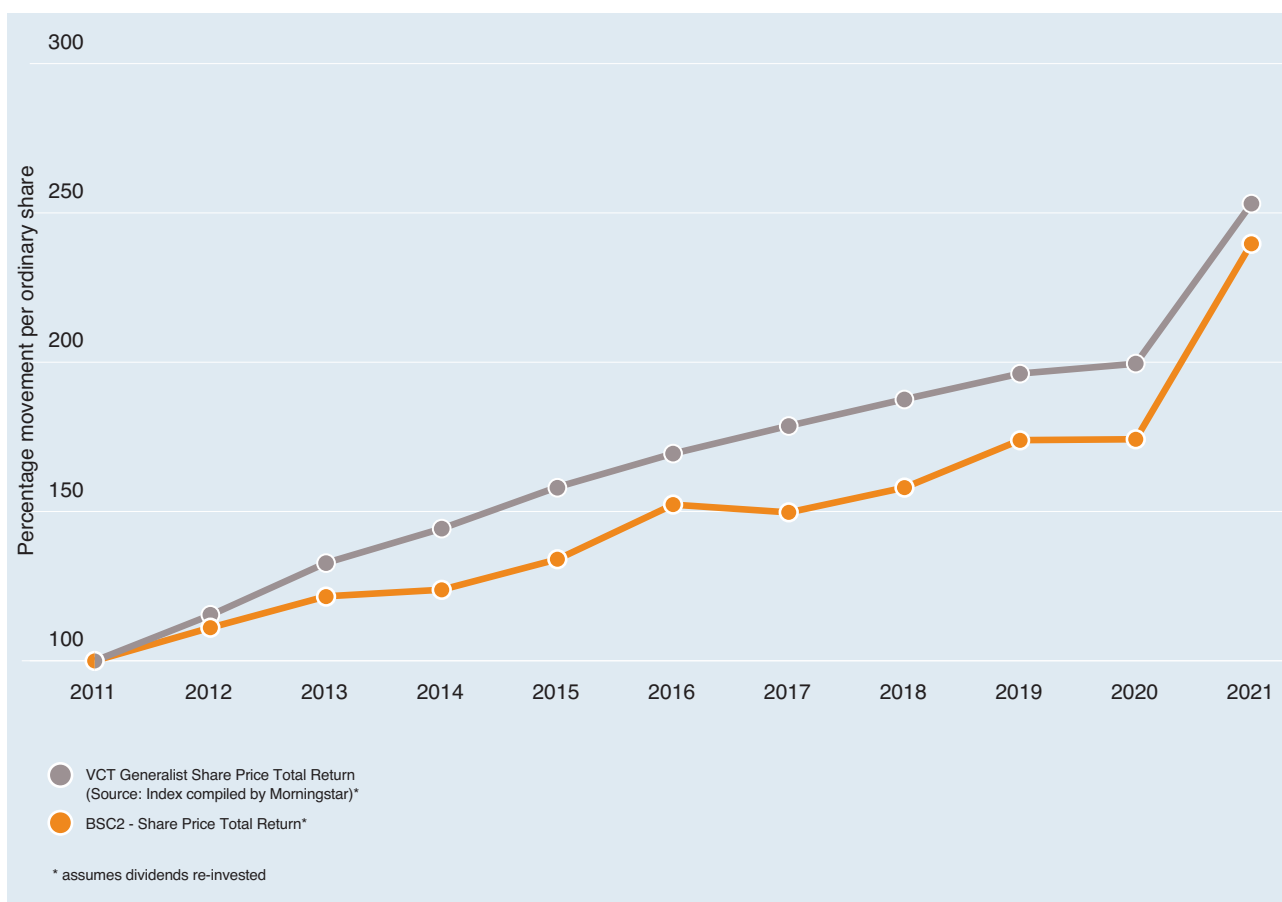
Directors' remuneration, dividend distribution and share buy-backs are shown in Table D.

Table D
Relative Importance of Pay

	2021 £	2020 £
Dividends	11,015,000	4,538,000
Share buy-backs	1,942,000	1,508,000
Total directors fees	88,000	94,000

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 Manager 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 an index of generalist VCTs which are members of the AIC (based on figures provided by Morningstar). In line with the index all the relative performance measures have been rebased to 100 as at December 2011. 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 21 March 2022.

Peter Waller

Peter Waller
Chairman

Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- > Prepare a directors' report, a strategic 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 the 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. The directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy.

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 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.

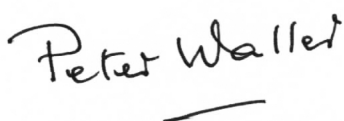
Directors' Responsibilities Pursuant to DTR4

The directors confirm to the best of their knowledge:

- > The financial statements have been prepared in accordance with accounting standards in conformity with the requirements of the Companies Act 2006 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 they face.

The names and functions of all the directors are stated on page 37.

This statement was approved by the Board and signed on its behalf on 21 March 2022.



Peter Waller
Chairman

Independent Auditor's Report

to the members of British Smaller Companies VCT2 plc

Opinion on the financial statements

In our opinion the financial statements:

- > give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- > have been properly prepared in accordance with UK adopted international accounting standards; and
- > have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of British Smaller Companies VCT2 plc (the 'Company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the 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 UK adopted international accounting standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors and subsequently by the shareholders at the AGM on 10 May 2017 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ending 31 December 2016 to 31 December 2021. We remain 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. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- > Evaluating the appropriateness of the Directors' method of assessing the going concern assumption by reviewing the information used by the Directors in completing their assessment; and
- > Challenging Directors' assumptions and judgements made in their base case and stress tested forecasts including consideration of current cash levels, future expenses with reference to historic expenditure and cash outflows relating to new investments in order to continue meeting VCT compliance rules.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report (continued)

Overview

	2021	2020
Key audit matters		
Valuation of Unquoted Investments	✓	✓

Materiality

£1,400,000 (2020: £980,000) based on 2% (2020: 2%) of value of investments

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of investments which have a high level of estimation uncertainty involved in determining the unquoted investment valuations.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Key audit matter

How the scope of our audit addressed the key audit matter

Valuation of unquoted investments (Note 1 and Note 7)

We consider the valuation of unquoted 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 Manager, who is remunerated based on factors including 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.

Our investments sample comprised those valued using more subjective techniques (earnings and revenue multiples).

For all investments in our sample we:

- > Recalculated the value attributable to the Company, having regard to the application of enterprise value across the capital structures of the investee companies;
- > Challenged whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines. We tested the key assumptions made in the valuation as described below;

Key audit matter

How the scope of our audit addressed the key audit matter

- > 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.

Key observations

Based on the procedures performed we did not identify any indicators which may suggest that the unquoted investment valuations are inappropriate considering the level of estimation uncertainty.

Independent Auditor's Report (continued)

Our application of materiality

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

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2021 £'000	2020 £'000
Materiality	1,400	980
Basis for determining materiality	2% (2020: 2%) of investments	
Rationale for the benchmark applied	As a Venture Capital Trust, the value of investments is the key measure of performance.	
Performance materiality	1,000	740
Basis for determining performance materiality	75% (2020: 75%) of materiality based on our knowledge and experience of the client, history of errors identified and low level of expected misstatements.	

Lower testing threshold

We determined that for Revenue return before tax, a misstatement of less than materiality for the financial statements as a whole, could influence users of the financial statements as it is a measure of the Company's performance of income generated from its investments after expenses. We have set a lower testing threshold for those items impacting revenue return of £190,000 (2020: £166,000) which is based on 10% of total

expenditure excluding the incentive fee (2020: 10% of total expenditure excluding the credit risk fair value movement).

Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences in excess of £70,000 (2020: £49,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	<ul style="list-style-type: none"> > The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and > The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	<ul style="list-style-type: none"> > Directors' statement on fair, balanced and understandable; > Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; > The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and > The section describing the work of the audit committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> > 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. <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Directors' remuneration	<p>In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> > 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 Company 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.

Independent Auditor's Report (continued)

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates from enquiries with management and from our sector knowledge, 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 Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, UK adopted international accounting standards, and 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.

The engagement partner has assessed and confirmed that the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our procedures included:

- > Agreement of the financial statement disclosures to underlying supporting documentation;
- > Enquiries of management and those charged with governance to confirm whether they are aware of any fraud or non-compliance with laws and regulations;
- > Review of minutes of Board and other Committee meetings throughout the period for instances of non-compliance with laws and regulations and fraud;
- > Obtaining an understanding of the control environment in monitoring compliance with laws and regulations; and
- > Obtaining the VCT compliance reports during the year and as at year end and reviewing their calculations to check that the Company was meeting its requirements to retain VCT status

We assessed the susceptibility of the financial statements to material misstatement, including fraud and determined the areas most susceptible to fraud to be management override of controls and the valuation of investments. Our procedures include those set out in the Key Audit Matters section above. We also:

- > Recalculated investment management fees in total; and
- > Obtained independent confirmation of bank balances.

In addressing the risk of management override of internal controls we tested a sample of journals based on risk criteria and agreed these journals to supporting documentation and evaluated whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

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

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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Vanessa-Jayne Bradley
(Senior Statutory Auditor)

For and on behalf of BDO LLP,
Statutory Auditor
London, UK

21 March 2022

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 2021

	Notes	Revenue £000	2021 Capital £000	Total £000	Revenue £000	2020 Capital £000	Total £000
Gain on disposal of investments	7	-	5,342	5,342	-	1,669	1,669
Gains on investments held at fair value	7	-	20,702	20,702	-	1,615	1,615
Gain arising from the portfolio		-	26,044	26,044	-	3,284	3,284
Income	2	661	-	661	2,752	-	2,752
Total income		661	26,044	26,705	2,752	3,284	6,036
Administrative expenses:							
Manager's fee		(374)	(1,118)	(1,492)	(301)	(903)	(1,204)
Incentive fee		-	(4,407)	(4,407)	-	-	-
Other expenses		(417)	-	(417)	(581)	-	(581)
	3	(791)	(5,525)	(6,316)	(882)	(903)	(1,785)
(Loss) profit before taxation		(130)	20,519	20,389	1,870	2,381	4,251
Taxation	4	-	-	-	-	-	-
(Loss) profit for the year		(130)	20,519	20,389	1,870	2,381	4,251
Total comprehensive (expense) income for the year		(130)	20,519	20,389	1,870	2,381	4,251
Basic and diluted (loss) earnings per ordinary share	6	(0.09p)	14.80p	14.71p	1.44p	1.83p	3.27p

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 UK adopted international accounting standards. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in April 2021 – "SORP") published by the AIC.

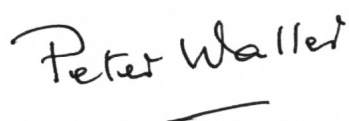
Balance Sheet

At 31 December 2021

	Notes	2021 £000	2020 £000
ASSETS			
Non-current assets at fair value through profit or loss			
Financial assets at fair value through profit or loss	7	70,019	49,115
Accrued income and other assets	8	493	444
		70,512	49,559
Current assets			
Accrued income and other assets	8	217	511
Current asset investments	9	1,988	1,988
Cash and cash equivalents	9	19,201	19,002
		21,406	21,501
LIABILITIES			
Current liabilities			
Trade and other payables	10	(4,543)	(131)
Net current assets		16,863	21,370
Net assets		87,375	70,929
Shareholders' equity			
Share capital	11	15,808	14,133
Share premium account		24,122	16,735
Capital redemption reserve		88	88
Other reserves		2	2
Merger reserve		5,525	5,525
Capital reserve		12,818	22,461
Investment holding gains and losses reserve	7	28,009	9,254
Revenue reserve		1,003	2,731
Total shareholders' equity		87,375	70,929
Net asset value per ordinary share	12	61.5p	55.0p

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 21 March 2022.



Peter Waller
Chairman

Statement of Changes in Equity

For the year ended 31 December 2021

	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 2019	14,041	16,436	5,615	25,223	9,948	1,070	72,333
<i>Revenue return for the year</i>	-	-	-	-	-	1,870	1,870
<i>Expenses charged to capital</i>	-	-	-	(903)	-	-	(903)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	1,615	-	1,615
<i>Realisation of investments in the year</i>	-	-	-	1,669	-	-	1,669
Total comprehensive income for the year	-	-	-	766	1,615	1,870	4,251
<i>Issue of shares – DRIS</i>	92	319	-	-	-	-	411
<i>Issue costs **</i>	-	(20)	-	-	-	-	(20)
<i>Purchase of own shares</i>	-	-	-	(1,508)	-	-	(1,508)
<i>Dividends</i>	-	-	-	(4,329)	-	(209)	(4,538)
Total transactions with owners	92	299	-	(5,837)	-	(209)	(5,655)
Realisation of prior year investment holding gains	-	-	-	2,309	(2,309)	-	-
Balance at 31 December 2020	14,133	16,735	5,615	22,461	9,254	2,731	70,929
<i>Revenue return for the year</i>	-	-	-	-	-	(130)	(130)
<i>Expenses charged to capital</i>	-	-	-	(5,525)	-	-	(5,525)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	20,702	-	20,702
<i>Realisation of investments in the year</i>	-	-	-	5,342	-	-	5,342
Total comprehensive (expense) income for the year	-	-	-	(183)	20,702	(130)	20,389
<i>Issue of share capital</i>	1,276	5,774	-	-	-	-	7,050
<i>Issue of shares – DRIS</i>	399	1,851	-	-	-	-	2,250
<i>Issue costs **</i>	-	(238)	-	(48)	-	-	(286)
<i>Purchase of own shares</i>	-	-	-	(1,942)	-	-	(1,942)
<i>Dividends</i>	-	-	-	(9,456)	-	(1,559)	(11,015)
Total transactions with owners	1,675	7,387	-	(11,446)	-	(1,559)	(3,943)
Realisation of prior year investment holding gains	-	-	-	1,986	(1,947)	(39)	-
Balance at 31 December 2021	15,808	24,122	5,615	12,818	28,009	1,003	87,375

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

For the year ended 31 December 2021

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	12,818	1,003	13,821
Less: income not yet distributable	-	(968)	(968)
Reserves available for distribution***	12,818	35	12,853

* 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.

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

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 £13,821,000, representing a decrease of £11,371,000 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 £13,821,000 shown above, £968,000 relates to income not yet distributable.

The Company held a General Meeting on 25 February 2022, at which shareholders approved the cancellation of the Company's share premium account, subject to the sanction of the High Court. If approved, total share premium cancelled (including that arising from the fundraising allotment on 7 January 2022) will be available for distribution from the following dates:

	£000
Once relevant accounts incorporating the share premium cancellation have been filed	4,351
1 January 2023	12,085
1 January 2024	299
1 January 2025	7,387
Share premium account at 31 December 2021	24,122
1 January 2026	20,193
Cancelled share premium not yet distributable	44,315

Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Net cash (outflow) inflow from operating activities		(1,419)	938
Cash flows generated from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	(6,092)	(3,997)
Proceeds from sale of financial assets at fair value through profit or loss	7	11,182	5,772
Deferred consideration	7	471	-
Net cash inflow from investing activities		5,561	1,775
Cash flows from (used in) financing activities			
Issue of ordinary shares		7,050	-
Costs of ordinary share issues*		(286)	(20)
Purchase of own ordinary shares		(1,942)	(1,508)
Dividends paid	5	(8,765)	(4,127)
Net cash outflow from financing activities		(3,943)	(5,655)
Net increase (decrease) in cash and cash equivalents		199	(2,942)
Cash and cash equivalents at the beginning of the year		19,002	21,944
Cash and cash equivalents at the end of the year	9	19,201	19,002

* 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

	2021 £000	2020 £000
Profit before taxation	20,389	4,251
Increase (decrease) in trade and other payables	4,412	(35)
(Increase) decrease in accrued income and other assets	(117)	65
Gain on disposal of investments	(5,342)	(1,669)
Gains on investments held at fair value	(20,702)	(1,615)
Capitalised income	(59)	(59)
Net cash (outflow) inflow from operating activities	(1,419)	938

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 UK adopted international accounting standards. The directors' assessment of going concern is set out in the Director's Report on page 38.

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 April 2021 – "SORP") to the extent that they do not conflict with International Accounting Standards in conformity with the Companies Act 2006.

The financial statements are prepared in accordance with UK adopted international accounting standards (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.

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

Financial Assets held at Fair Value through Profit or Loss - Investments

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

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

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

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 Valuation Guidelines (“the IPEV Guidelines”) updated in December 2018. A detailed explanation of the valuation policies of the Company is included below.

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

- > **Revenue multiples.** An appropriate multiple, given the risk profile and revenue growth prospects of the underlying company, is applied to the revenue of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- > **Earnings multiple.** An appropriate multiple, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- > **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- > **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- > **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.
- > **Price of recent investment.** This may represent the most appropriate basis where a significant amount of new investment has been made by an independent third party. This is adjusted, if necessary, for factors relevant to the background of the specific investment such as preference rights and will be benchmarked against other valuation techniques. In line with the IPEV Guidelines the price of recent investment will usually only be used for the initial period following the round and after this an alternative basis will be found.

Due to the significant subjectivity involved, discounted cash flows are only likely to be reliable as the main basis of estimating fair value in limited situations. Their main use is to support valuations derived using other methodologies and for assessing reductions in fair value.

One of the valuation methods described above is used to derive the gross attributable enterprise value of the company. 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.

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 Manager's fee and incentive fees. Of the Manager's fees, 75 per cent are allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains.

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

Incentive Fee

The incentive fee is accounted for on an accruals basis. As further detailed in note 3, the incentive fee is calculated as 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 Company's middle market price per ordinary share on the five dealing days prior to that day, exceeds the Hurdle (as defined on page 71), multiplied by the number of ordinary shares issued and the ordinary shares under option. At the end of each reporting period, an accrual is recognised based upon the cumulative dividends per ordinary share paid to the reporting date, plus the average of the Company's middle market price per ordinary share on the five dealing days prior to the reporting date. The incentive fee is charged wholly through the Capital column.

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 Manager's fees and incentive fees payable to the Manager. 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.

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

Share Capital and Reserves

Share Capital

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

Share Premium Account

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

Capital Redemption Reserve

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

Capital Reserve

The following are included within this reserve:

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

Investment Holding Gains and Losses Reserve

Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

Revenue Reserve

This reserve includes all income from investments along with any costs associated with the running of the Company – less 75 per cent of the Manager's fee expense as detailed in the Capital Reserve above.

Taxation

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

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

Dividends Payable

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

Segmental Reporting

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

Critical Accounting Estimates and Judgements

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

The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Board uses its judgement to select from a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date. The Board does not consider that there is any particular impact of climate change that would materially affect the estimate of fair value.

2. Income

	2021 £000	2020 £000
Dividends from unquoted companies*	328	2,237
Interest on loans to unquoted companies	273	391
Income from investments held at fair value through profit or loss	601	2,628
Interest on bank deposits	60	124
	661	2,752

* 2020 includes an ordinary dividend of £1.93 million received from ACC Aviation

Notes to the Financial Statements (continued)

3. Administrative Expenses

	2021 £000	2020 £000
Manager's fee	1,492	1,204
Administration fee	70	69
	1,562	1,273
Incentive fee	4,407	-
<i>Other expenses:</i>		
Directors' remuneration	96	105
General expenses	63	71
Listing and registrar fees	55	56
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	41	35
Printing	34	33
Trail commission	33	60
Irrecoverable VAT	25	30
	6,316	1,663
Fair value movement related to credit risk	-	122
	6,316	1,785
Ongoing charges figure	2.16%	2.45%

Directors' remuneration comprises only short term benefits including social security contributions of £8,000 (2020: £9,000).

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

No fees are payable to the auditor in respect of other services (2020: £nil), apart from costs of £12,000 (2020: £nil) for audit-related assurance services which were charged to the share premium account.

YFM Private Equity Limited has acted as Manager 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 "IA"). The agreement may be terminated by not less than twelve months' notice given by either party at any time. Under an Investment Agreement dated 13 November 2019, YFM Private Equity Limited was appointed as the Company's Alternative Investment Fund Manager. As a result, the Company was de-registered by the Financial Conduct Authority as a Small Registered Alternative Fund Manager on 24 March 2020 and responsibility for the custody of the Company's investments passed to YFM Private Equity Limited on that date.

The key features of the agreement are:

- > YFM Private Equity Limited receives a Manager's fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;

- > The annual Manager's fee payable to the Manager 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 2021 of £87,375,000, cash of £21,189,000 at that date, and the incentive payment for the year ended 31 December 2021 being made prior to 30 June 2022 this equates to approximately £1,611,000 per annum;
- > YFM Private Equity Limited shall bear the annual operating costs of the Company (including the Manager's 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 IA 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 £70,000 for the year ended 31 December 2021 (2020: £69,000).

When the Company makes investments into its unquoted portfolio, the Manager 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 2021, the Company was due a rebate from the Manager of £nil (2020: £nil).

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

The total remuneration payable to YFM Private Equity Limited under the IA in the year was £1,562,000 (2020: £1,273,000).

Under the IA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2021 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £1,235,000 (2020: £1,009,000) of which £113,000 (2020: £93,000) was borne by the Company.

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 Manager and Chord Capital Limited.

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

Notes to the Financial Statements (continued)

3. Administrative Expenses (continued)

As at 31 December 2021 the total of cumulative cash dividends paid and mid-market price was 135.5 pence per ordinary share. Consequently the Hurdle was exceeded and a performance related incentive of £4,407,000 is payable. The Hurdle for the year ending 31 December 2022 is reset at 135.5 pence per ordinary share.

If the IA is terminated the beneficiaries of the Incentive Agreement will continue to be entitled to the Incentive Payment. The Incentive Payment will be modified so as to entitle the recipients to an Incentive Payment that is fair, having regard to all the circumstances.

Under the terms of the offer launched with British Smaller Companies VCT plc on 2 February 2021, YFM Private Equity Limited was entitled to 2.5 per cent of gross subscriptions, less the cost of re-investment of intermediary commission. The net amount to be paid to YFM Private Equity Limited under this offer amounted to £176,000.

Under the terms of the offer launched with British Smaller Companies VCT plc on 22 September 2021, YFM Private Equity Limited was entitled to 3.0 per cent of gross subscriptions, (3.5 per cent for Applications received from Applicants who did not invest their money through a financial intermediary advisor and invested directly into the Company) less the cost of re-investment of intermediary commission. The net amount to be paid to YFM Private Equity Limited under this offer amounted to £744,000.

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 2021 (audited)".

4. Taxation

	Revenue £000	2021 Capital £000	Total £000	Revenue £000	2020 Capital £000	Total £000
(Loss) profit before taxation	(130)	20,519	20,389	1,870	2,381	4,251
(Loss) profit before taxation multiplied by standard rate of corporation tax in UK of 19% (2020 :19%)	(25)	3,899	3,874	355	453	808
Effect of:						
UK dividends received	(62)	-	(62)	(412)	-	(412)
Non-taxable profits on investments	-	(4,948)	(4,948)	-	(624)	(624)
Deferred tax not recognised	87	1,049	1,136	57	171	228
Tax charge	-	-	-	-	-	-

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

Deferred tax assets of £3,072,000 (2020: £1,198,000) calculated at 25% (2020: 19%) in respect of unrelieved management expenses (£12.29 million as at 31 December 2021 and £6.31 million as at 31 December 2020) 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	2021 Capital £000	Total £000	Revenue £000	2020 Capital £000	Total £000
Interim dividend for the year ended 31 December 2021 of 1.5p (2020: 2.0p) per ordinary share	-	1,934	1,934	189	2,409	2,598
Second interim dividend for the year ended 31 December 2021 of 1.5p (2020: 1.5p per ordinary share)	1,559	544	2,103	20	1,920	1,940
Third interim dividend for the year ended 31 December 2021 of 5.0p per ordinary share	-	6,978	6,978	-	-	-
	1,559	9,456	11,015	209	4,329	4,538
Shares allotted under DRIS			(2,250)			(411)
Dividends paid in Statement of Cash Flows			8,765			4,127

The first interim dividend of 1.5 pence per ordinary share was paid on 5 March 2021 to shareholders on the register as at 5 February 2021.

The second interim dividend of 1.5 pence per ordinary share was paid on 25 October 2021 to shareholders on the register as at 24 September 2021.

The third interim dividend of 5.0 pence per ordinary share was paid on 16 November 2021 to shareholders on the register as at 15 October 2021.

An interim dividend of 1.5 pence per ordinary share in respect of the year ending 31 December 2022, amounting to approximately £2,700,000, will be paid on 6 May 2022. This dividend was not recognised in the year ended 31 December 2021 as the obligation did not exist at the balance sheet date.

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 £20,389,000 (2020: £4,251,000) and 138,592,343 (2020: 129,987,842) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue (loss) earnings per ordinary share is based on the revenue (loss) profit for the year attributable to shareholders of £130,000 (2020: profit of £1,870,000) and 138,592,343 (2020: 129,987,842) 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 £20,519,000 (2020: £2,381,000) and 138,592,343 (2020: 129,987,842) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 3,995,494 new ordinary shares in respect of its DRIS and 12,756,951 new ordinary shares from the fundraising.

Notes to the Financial Statements (continued)

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

The Company has also repurchased 3,553,337 of its own shares in the year, and these shares are held in the capital reserve. The total of 15,929,774 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 2021 and 31 December 2020.

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. The Company held no such instruments in the current or prior year.

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

Level 3: the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as revenue or earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. All of the Company's investments fall into this category at 31 December 2021.

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 2021 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments £000
Opening cost	39,891
Opening investment holding gain	9,224
Opening fair value at 1 January 2021	49,115
Additions at cost	6,092
Capitalised income	59
Disposal proceeds	(11,186)
Net profit on disposal*	5,237
Change in fair value	20,539
Foreign exchange gain	163
Closing fair value at 31 December 2021	70,019
Closing cost	42,037
Closing investment holding gain**	27,982
Closing fair value at 31 December 2021	70,019

* The net profit on disposal in the table above is £5,237,000 whereas that shown in the Statement of Comprehensive income is £5,342,000. The difference comprises deferred proceeds of £105,000 in respect of assets which have been disposed of in prior years and are not included in the portfolio at 1 January 2021 (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 2021 a total of £27,000 (2020: £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 (2020: £nil).

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in fair value of financial assets held at the price of recent investment, or to adjust revenue or earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's investments, 78 per cent are held on a revenue multiple basis and 19 per cent on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table on page 76 sets out the range of Revenue Multiple (RM), Earnings Multiple (EM) and discounts applied in arriving at investments valued on these bases. The remaining 3 per cent are valued based on net asset value reviewed for change in fair value.

Notes to the Financial Statements (continued)

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

	Revenue Multiple inputs	New Media	Data & Analytics	Retail & Brands	Software Applications
2021	Revenue Multiple Range	1.80-8.70	4.10-26.90	1.27	1.13-8.70
	Revenue Multiple Weighted Average	6.96	21.68	1.27	8.07
2020	Revenue Multiple Range	5.4	6.50-15.30	1.47	3.50-6.50
	Revenue Multiple Weighted Average	5.4	13.78	1.47	5.40
2021	Combined RM and/or Marketability Discount Range	60%-68%	19%-72%	44%	52%-76%
	Combined RM and/or Marketability Discount Weighted Average	64%	28%	44%	63%
2020	Combined RM and/or Marketability Discount Range	52%-60%	20%-72%	68%	60%-72%
	Combined RM and/or Marketability Discount Weighted Average	56%	28%	68%	67%

	Earnings Multiple inputs	New Media	Data & Analytics	Business Services	Retail & Brands	Software Applications	Advanced Manufacturing
2021	Earnings Multiple Range	10.16-15.15	13.66	6.90-15.15	15.00	10.76	11.73
	Earnings Multiple Weighted Average	15.15	13.66	11.94	15.00	10.76	11.73
2020	EM Multiple Range	32.54	32.54-45.86	32.54	13.80	13.76	32.51
	EM Multiple Weighted Average	32.54	39.10	32.54	13.80	13.76	32.51
2021	Combined EM and/or Marketability Discount Range	36%-64%	60%	20%-60%	24%	40%	60%
	Combined EM and/or Marketability Discount Weighted Average	64%	60%	44%	24%	40%	60%
2020	Combined EM and/or Marketability Discount Range	76%	60%-76%	72%-76%	76%	20%	76%
	Combined EM and/or Marketability Discount Weighted Average	76%	68%	76%	76%	20%	76%

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 revenue/earnings levels or multiple ratios) alternatives have been considered which still fall within the IPEV 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 £3.6 million or 5.1 per cent lower. Using the upside alternative the value would be increased by £4.0 million or 5.7 per cent.

Movements in investments at fair value through profit or loss during the previous year to 31 December 2020 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments £000
Opening cost	37,995
Opening investment holding gain	9,918
Opening fair value at 1 January 2020	47,913
Additions at cost	3,997
Capitalised income	59
Disposal proceeds	(6,138)
Net profit on disposal	1,669
Change in fair value	1,801
Foreign exchange loss	(186)
Closing fair value at 31 December 2020	49,115
Closing cost	39,891
Closing investment holding gain	9,224
Closing fair value at 31 December 2020	49,115

Notes to the Financial Statements (continued)

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

The following disposals took place in the year:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2021 £000	Profit (loss) on disposal £000
<i>Unquoted investments:</i>				
Matillion Limited	5,946	321	2,539	3,407
Deep-Secure Ltd	3,279	500	1,966	1,313
KeTech Enterprises Limited	1,275	1,490	1,292	(17)
Tissuemed Limited	599	48	65	534
Ncam Technologies Limited	87	87	87	-
Macro Art Holdings Limited	-	159	-	-
Friska Limited	-	1,400	-	-
Total from unquoted investments	11,186	4,005	5,949	5,237
<i>Deferred proceeds</i>				
Business Collaborator Limited	300	-	300	-
Bagel Nash Group Limited	100	-	66	34
Ness (Holdings) Limited	71	-	-	71
Deferred proceeds received	471	-	366	105
Total proceeds received*	11,657	4,005	6,315	5,342

* The total from disposals in the year in the table above is £11,657,000 whereas that shown in the Statement of Cash Flows is £11,653,000. The difference comprises proceeds of £4,000 which were received after the year end.

The following disposals took place in the year to 31 December 2020:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2020 £000	Profit (loss) on disposal £000
<i>Unquoted investments:</i>				
Business Collaborator Limited	5,390	1,340	3,458	1,932
RMS Group Holdings Limited	562	70	611	(49)
Springboard Research Holdings Limited	120	120	120	-
Bagel Nash Group Limited	66	630	280	(214)
Total from unquoted investments	6,138	2,160	4,469	1,669

Significant Interests

YFM Private Equity Limited, the Company's Manager, also acts as 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 following tables.

At 31 December 2021 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No of shares held by the Company	Percentage of class held by the Company*	Percentage of class held by commonly managed funds*
ACC Aviation Group Limited	Business Services	146,850	19%	69%
Arcus Global Limited	Software Applications	304,457	16%	37%
Biz2Mobile Limited	Data & Analytics	3,861,591	10%	26%
DisplayPlan Holdings Limited	New Media	1,260	12%	34%
EL Support Services Limited**	Investment Company	3,500	50%	100%
Elucidat Ltd	Software Applications	2,301	8%	20%
Force24 Ltd	Software Applications	18,582	11%	34%
Immunobiology Limited**	Lifesciences	62,485,280	27%	27%
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	Business Services	106,609	18%	44%
KeTech Enterprises Limited	Data & Analytics	128,333	16%	47%
Macro Art Holdings Limited	New Media	100,000	13%	32%
NB Technology Services Limited**	Investment Company	3,500	50%	100%
Ncam Technologies Limited	New Media	1,186,915	15%	51%
OC Engineering Services Limited**	Investment Company	3,500	50%	100%
Outpost VFX Limited	New Media	2,389,486	8%	24%

Notes to the Financial Statements (continued)

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

Company	Principal activity	No of shares held by the Company	Percentage of class held by the Company*	Percentage of class held by commonly managed funds*
Panintelligence (via Paninsight Limited)	Data & Analytics	22,712	10%	35%
Seven Technologies Holdings Limited	Advanced Manufacturing	613,515	14%	60%
SH Healthcare Services Limited**	Investment Company	3,500	50%	100%
SharpCloud Software Limited	Data & Analytics	26,340	13%	40%
Sipsynergy (via Hosted Network Services Limited)	Software Applications	6,093,201	20%	62%
SP Manufacturing Services Limited**	Investment Company	3,500	50%	100%
Springboard Research Holdings Limited	Data & Analytics	171,892	13%	32%
Tonkotsu Limited	Retail & Brands	33,662	12%	38%
Traveltek Group Holdings Limited	Software Applications	36,190	15%	47%
Unbiased EC1 Limited	Software Applications	774,096	11%	30%
Vuealta Group Limited	Software Applications	2,207	7%	20%
Vypr Validation Technologies Limited	Data & Analytics	7,655	9%	22%
Wakefield Acoustics (via Malvar Engineering Limited)	Advanced Manufacturing	49,600	15%	37%
Wooshii Limited	New Media	972,207	13%	38%

* Fully diluted holding.

** The registered office of these significant holdings is given on the inside back cover.

The amounts shown below are the net cost of investments as at 31 December 2021 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 funds £000	Total £000
ACC Aviation Group Limited	145	220	185	550
Arcus Global Limited	2,050	3,075	-	5,125
Arraco Global Markets Limited	1,620	2,430	-	4,050
Biz2Mobile Limited	1,265	1,898	-	3,163
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	1,800	2,700	-	4,500

	British Smaller Companies VCT2 plc £000	British Smaller Companies VCT plc £000	Other commonly managed funds £000	Total £000
Force24 Ltd	1,600	2,400	800	4,800
Frescobol Carioca Ltd	1,200	1,800	-	3,000
Intamac Systems Limited	905	302	-	1,207
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	1,956	2,934	-	4,890
KeTech Enterprises Limited	10	10	10	30
Macro Art Holdings Limited	321	481	-	802
Matillion Limited	1,456	1,778	549	3,783
NB Technology Services Limited	500	500	-	1,000
Ncam Technologies Limited	1,675	2,512	1,577	5,764
OC Engineering Services Limited	500	500	-	1,000
Outpost VFX Limited	1,000	1,500	500	3,000
Panintelligence (via Paninsight Limited)	1,000	1,500	1,000	3,500
Seven Technologies Holdings Limited	1,221	1,677	6,046	8,944
SH Healthcare Services Limited	500	500	-	1,000
SharpCloud Software Limited	2,271	3,407	1,322	7,000
SP Manufacturing Services Limited	500	500	-	1,000
Springboard Research Holdings Limited	1,881	2,822	-	4,703
Sipsynergy (via Hosted Network Services Ltd)	1,636	2,163	1,201	5,000
TeraView Limited	377	377	-	754
Tonkotsu Limited	1,592	2,388	995	4,975
Traveltek Group Holdings Limited	1,163	1,715	3,577	6,455
Unbiased EC1 Limited	1,964	2,946	640	5,550
Vuealta Group Limited	1,399	2,099	428	3,926
Vypr Validation Technologies Limited	1,000	1,500	-	2,500
Wakefield Acoustics (via Malvar Engineering Limited)	720	1,080	-	1,800
Wooshii Limited	2,440	3,660	591	6,691

Notes to the Financial Statements (continued)

8. Accrued income and other assets

	2021 £000	2020 £000
Non-current assets:		
Accrued income on financial assets	493	444
Current assets:		
Accrued income on financial assets	107	479
Accrued income on cash, cash equivalents and cash deposits	3	3
Prepayments and accrued income	107	29
	217	511

Non-current assets relates to income 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

	2021 £000	2020 £000
Cash at bank	19,201	19,002
Cash and Cash Equivalents	19,201	19,002

At 31 December 2021 a further £1.99 million (2020: £1.99 million) was also held in fixed term deposit accounts which were due to mature in April 2022. In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year are shown separately as current asset investments on the face of the balance sheet.

10. Trade and Other Payables

	2021 £000	2020 £000
Amounts payable within one year:		
Incentive fee	4,407	-
Accrued expenses	136	131
	4,543	131

11. Called-up Share Capital

	2021 Allotted, called-up and fully paid £000	2020 Allotted, called-up and fully paid £000
Ordinary shares of 10 pence Issued 158,084,973 (2020: 141,332,528) including 15,929,774 shares held in treasury (2020: 12,376,437)	15,808	14,133

The movement in the year was as follows:

		Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2021				141,332,528	14,133
Issue of shares	DRIS	53.5	5 Mar 2021	742,805	74
Issue of shares	Fundraising	54.872-54.943	11 Mar 2021	12,756,951	1,276
Issue of shares	DRIS	57.0	25 Oct 2021	760,733	76
Issue of shares	DRIS	57.0	16 Nov 2021	2,491,956	249
As at 31 December 2021 (including treasury shares)				158,084,973	15,808
As at 31 December 2021 (excluding treasury shares)				142,155,199	

The movement in the previous year to 31 December 2020 was as follows:

		Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2020				140,409,638	14,041
Issue of shares	DRIS	44.56	21 Sep 2020	922,890	92
As at 31 December 2020 (including treasury shares)				141,332,528	14,133
As at 31 December 2020 (excluding treasury shares)				128,956,091	

During the year the Company purchased 3,553,337 (2020: 3,067,345) 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 2021 and 31 December 2020.

Notes to the Financial Statements (continued)

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 £87,375,000 (2020: £70,929,000) and 142,155,199 (2020: 128,956,091) 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 2021.

The Company has no potentially dilutive shares and consequently, basic and diluted net asset values per ordinary share are equivalent in both the years ended 31 December 2021 and 31 December 2020.

13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 78.0 pence per ordinary share (2020: 70.0 pence per ordinary share) plus the net asset value as calculated per note 12.

14. Financial Commitments

There are no financial commitments at 31 December 2021 or 31 December 2020.

15. Events after the Balance Sheet Date

The Company announced a new share offer on 22 September 2021, alongside British Smaller Companies VCT plc, with the intention of raising up to £40 million, in aggregate with an over-allotment facility of £20 million, in aggregate. This was fully subscribed and closed on 12 November 2021. The related allotment of 40,224,521 ordinary shares took place post year-end, on 7 January 2022, following which the Company received net proceeds of £24.2 million.

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.

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

Assets as per balance sheet

	2021 Other assets £000	2021 Assets at fair value through profit or loss £000	2020 Other assets £000	2020 Assets at fair value through profit or loss £000
Non-current assets at fair value through profit or loss				
Financial assets	-	70,019	-	49,115
Accrued income on financial assets	-	493	-	444
Current assets				
Cash and cash equivalents	19,201	-	19,002	-
Cash on fixed term deposit	1,988	-	1,988	-
Accrued income on financial assets	-	107	-	479
Accrued income on cash, cash equivalents and cash deposits	3	-	3	-
	21,192	70,619	20,993	50,038
Other assets – not financial instruments	107	-	29	-
	21,299	70,619	21,022	50,038

Liabilities as per balance sheet

	2021 Other financial liabilities £000	2020 Other financial liabilities £000
Trade and other payables	(136)	(131)
Performance incentive fee	(4,407)	-
	(4,543)	(131)

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.

Notes to the Financial Statements (continued)

16. Financial Instruments (continued)

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.

All of the Company's investments, are in unquoted companies held at fair value (2020: 100 per cent). The valuation methodology for these investments includes the application of externally produced revenue/earnings multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed markets. Investments have been valued in line with the valuation guidelines described within note 1. Those using revenue and earnings multiple methodologies include judgements regarding the level of discount applied to that revenue and earnings 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 £4,336,000 (5.0 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 £4,587,000 (5.2 per cent of net assets) .

The largest single concentration of risk relates to the Company's investment in Matillion Limited which constitutes 28.7 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 2.7 per cent (2020: 2.0 per cent) of the value of net assets.

Comparison of Realised Proceeds to Unrealised Valuations

The table below shows a comparison of the realised proceeds to the unrealised valuations one year prior to sale, for all disposals of unquoted investments over the last ten years. The uplift in valuation achieved by many portfolio companies partly reflects ongoing trading and also partly the removal of discounts on valuations due to decreasing risks relating to execution and marketability.

	Date of Disposal	Sale proceeds to date £000	Valuation one year earlier £000	Increase (decrease) £000
Primal Pictures Limited	Aug-12	1,916	1,008	908
Sirigen Group Limited	Aug-12	1,962	517	1,445
Digital Healthcare Limited	Aug-13	1,285	1,156	129
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	152	509	(357)
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	1,291	1,179	112
The Heritage Window Company Holdco Limited	Jun-19	-	280	(280)
Eikon Holdco Limited (partial realisation)	Oct-19	4,209	1,500	2,709
Business Collaborator Limited	Mar-20	5,390	2,441	2,949
RMS Group Holdings Limited	Jun-20	562	353	209
Bagel Nash Group Limited	Oct-20	100	405	(305)
Deep-Secure Ltd	Jul-21	3,279	1,479	1,800
Tissuemed Limited	Dec-21	599	65	534
		34,216	21,800	12,416

Interest Rate Risk

The Company's venture capital investments include £3,755,000 (2020: £5,959,000) of loan stock in unquoted companies. The majority of this loan stock at 31 December 2021 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 £611,000 (2020: £750,000) of its loan stock portfolio.

Notes to the Financial Statements (continued)

16. Financial Instruments (continued)

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.

	2021			2020		
	£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	8,002	7.6	15	9,205	8.8	14
Cash on fixed term deposit	1,988	1.0	3	1,988	1.0	3
Combined	9,990	6.3	12	11,193	7.4	12

Exchange Rate Risk

Of the Company's financial assets through profit or loss, 35 per cent (2020: 26 per cent) are denominated in US dollars. A 5% increase in the £:\$ exchange rate at 31 December 2021 would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by £1,193,000 (2020: £605,000). An equal change in the opposite direction would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,318,000 (2020: £668,000).

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 Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £36,218,000 (2020: £34,339,000) 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 Manager 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 Manager will move the cash holdings to another bank.

The maturities of the loan stock portfolio are as follows:

	2021 £000			2020 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	2,053	591	1,111	4,330	832	797

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.

	2021 £000		2020 £000	
	< 1 year	< 1-2 years	< 1 year	< 1-2 years
Loans to investee companies past due	400		1,332	400

Included within unquoted loan investments are £nil (2020: £nil) 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 Manager in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Of the Company's assets 22.0 per cent (2020: 26.8 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.

Notes to the Financial Statements (continued)

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 2021 was £87,375,000 (2020: £70,929,000).

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 the shares of the Company are disclosed within the Directors' Remuneration Report on page 50. There were no amounts outstanding and due to the directors at 31 December 2021 (2020: £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 13 June 2022 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 2021 be received.
- (2) That the Directors' Remuneration Report for the year ended 31 December 2021 be approved other than the part of such report containing the Directors' Remuneration Policy.
- (3) That Mr P C Waller be re-elected as a director.
- (4) That Ms B L Anderson be re-elected as a director.
- (5) That Mr R S McDowell be re-elected as a director.
- (6) 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.
- (7) 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 £10,000,000, during the period commencing on the passing of this Resolution and expiring on the later of 15 months from the passing of this Resolution or the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares in the Company to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

- (8) 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 7 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 £10,000,000, 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 7 above" were omitted.
- (9) That the Articles of Association of the Company be amended to increase the limit on the aggregate remuneration of the non-executive directors from £100,000 to £110,000 by replacing the figure of £100,000 appearing in Article 128 with £110,000.

Notice of the Annual General Meeting (continued)

- (10) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 10 pence in the capital of the Company provided that:
- [1] the maximum aggregate number of ordinary shares that may be purchased is 27,338,720, being 14.99 per cent of the issued ordinary shares as at 21 March 2022;
 - [2] the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
 - [3] the minimum price (excluding expenses) which may be paid for an ordinary share is its nominal value;
 - [4] this authority shall take effect from 13 June 2022 and shall expire on the conclusion of the Company's Annual General Meeting in 2025 or on 13 June 2025, whichever is the later; and
 - [5] the Company may make a contract or contracts to purchase ordinary shares under this authority before the expiry of the authority, which will or may be executed wholly or partly after the expiry of the authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board

The City Partnership (UK) Limited
Company Secretary

21 March 2022

Registered office:

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

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

Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes of the Form of Proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent their appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as their proxy although the Chairman will not speak for the member. A member who wishes their proxy to speak for them should appoint their 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 Group, PXS1 Central Square, Wellington Street, Leeds, LS1 4DL 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 9 June 2022 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 Group
PXS1
Central Square
Wellington Street
Leeds LS1 4DL;
 - 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 they wish 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 Group, PXS1, Central Square, Wellington Street, Leeds, LS1 4DL. 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 Group before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke their 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.

Notice of the Annual General Meeting (continued)

- (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 9 June 2022 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 9 June 2022 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (j) As at 21 March 2022 the Company's issued share capital comprised 182,379,720 ordinary shares of 10 pence each with a further 15,929,774 shares held in treasury. Those treasury shares represented 8.0 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share carries one voting right at the Annual General Meeting of the Company and so the total number of voting rights in the Company as at 21 March 2022 was 182,379,720. 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 their discretion. The proxy will vote (or abstain from voting) as they think fit in relation to any other matter which is put before the Annual General Meeting.
- (o) Members may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.
- (p) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

British Smaller Companies VCT2 plc

Form of Proxy

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London SW1Y 4JS, on 13 June 2022 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 13 June 2022 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 re-elect Mr P C Waller as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Ms B L Anderson as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr R S McDowell as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-appoint BDO LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the directors to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Resolutions			
8. To waive pre-emption rights in respect of the allotment of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To increase the limit on directors' remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. To authorise the Company to make purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature

Dated

2022

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 94 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 their appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as their proxy although the Chairman will not speak for the member. A member who wishes their proxy to speak for them should appoint their 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 Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL 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 Group, PXS1, Central Square, 29 Wellington Street, Leeds, LS1 4DL. 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 Group before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke their 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 their discretion on any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

Advisers to the Company

Manager

YFM Private Equity Limited

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

Registrars

Link Group

Central Square
29 Wellington Street
Leeds
LS1 4DL

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

55 Baker Street
London
W1U 7EU

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

Sipsynergy (via Hosted Network Services Limited)

Wessex House
Upper Market Street
Eastleigh
Hampshire
SO50 9FD



British Smaller Companies VCT2 plc

5th Floor, Valiant Building
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bscfunds.com

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