YFM Equity Partners

British Smaller Companies VCT2 plc

Annual Report

for the year ended 31 December 2022

bsfunds.com

Transforming small businesses

CONTENTS

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 portfolio has a valuation of £81.4 million as at 31 December 2022.

Registered Number:
04084003

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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 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 in the year

TOTAL RETURN IN THE YEAR[1]

142.6p

↑ 3.1p

The Company's Total Return increased by 3.1 pence, from 139.5 pence per ordinary share to 142.6 pence per ordinary share, which includes cumulative dividends paid of 81.0 pence per ordinary share. The increase is equivalent to an annualised return of 5.0 per cent of the opening net asset value.

REALISATION PROCEEDS

£12.9m

↑ £4.1m over cost

Realisations of investments generated total proceeds of £12.9 million in the year, a gain of £3.6 million over the opening carrying value and £4.1 million over cost.

INVESTED IN PORTFOLIO

£16.3m

for 2022

The Company completed a total of 15 investments, of which six were new additions to the portfolio.

DIVIDENDS PAID IN THE YEAR

3.0p

Total Dividends

Total dividends paid were 3.0 pence per ordinary share, which equates to 4.9 per cent of the opening net asset value per ordinary share.

FUNDS RAISED

£24.2m

for 2022

£24.2 million raised at the beginning of the period and allotted in January 2022.

1. Total Return ("TR") is defined as an Alternative Performance Measure. The Board considers TR to be the primary measure of shareholder value; it is calculated as the total of current net asset value per ordinary share plus cumulative dividends paid since inception of the Company.

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.

All stated figures above and throughout the annual report exclude the impact of any tax benefits that may arise to shareholders due to the Company's status as a Venture Capital Trust.

Five Year Summary

	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	Year ended 31 December 2019	Year ended 31 December 2018
Income £000	**1,075**	661	2,752	1,076	1,684
Profit before and after taxation £000	**6,253**	20,389	4,251	4,536	4,454
Net assets attributable to ordinary shares £000	**111,869**	87,375	70,929	72,333	64,054
Profit per ordinary share	**3.45p**	14.71p	3.27p	3.60p	4.17p
Dividends per ordinary share paid in the year	**3.0p**	8.0p	3.5p	8.0p	3.0p
Net asset value per ordinary share	**61.6p**	61.5p	55.0p	55.2p	59.9p
Total Return per ordinary share[1]	**142.6p**	139.5p	125.0p	121.7p	118.4p
Increase in Total Return per ordinary share[1]	**3.1p**	14.5p	3.3p	3.3p	4.1p
Annualised return[1]	**5.2%**				
Cumulative 3 year increase in Total Return per ordinary share[1]	**20.9p**				
Annualised 3 year return[1]	**12.6%**				
Cumulative 5 year increase in Total Return per ordinary share[1]	**28.3p**				
Annualised 5 year return[1]	**9.9%**				

1. These are Alternative Performance Measures. The Board considers Total Return to be the primary measure of shareholder value. The annualised return comprises the cumulative dividends paid plus the NAV at 31 December 2022, compared to the NAV at the beginning of the relevant period.

Financial Calendar

Results announced	**20 March 2023**
Annual General Meeting	**15 June 2023**
Shareholder workshop	**20 June 2023**

Ex-dividend date	**11 May 2023**
Record date	**12 May 2023**
DRIS Election date	**26 May 2023**
Dividend paid	**26 June 2023**

The Portfolio

ACC
arcus global
AutomatePro
Let's make progress
B2M SOLUTIONS
ANALYTICS. INSIGHT. RESULTS.
Biorelate
displayplan
DrDoctor
e2E
EIKON
Elucidat
Force24
FRESCOBOL CARIOCA RIO DE JANEIRO
imBio
INNOVATING VACCINES
intamac
Making Connections
KeTech
Better Informed Journeys
MACROART
MATILLION
ncam
outpost
panintelligence
Plandek
QualityClouds
SaaS by Nature, Quality by Design
Relative
INSIGHT
sipsynergy
SharpCloud
Summize
TeraView
TONKOTSU
traveltek
YOUR PARTNERS IN TRAVEL TECHNOLOGY
unbiased.co.uk
VUEALTA
Vypr.
WOOSHII

Chairman's Statement

I am pleased to present the 2022 annual report and financial statements of British Smaller Companies VCT2 plc ("BSC2" or "the Company"), highlighting another year of resilience from the Company in a challenging economic environment.

The past twelve months has seen the continued trend of high inflation driving up interest rates, with consumers struggling with rising costs of energy, food and other goods and services. The higher interest rate environment has in turn fed through into a cooling of sentiment towards growth-focused investments, reducing valuations of many publicly listed companies.

In light of these conditions, the robust performance of BSC2 is all the more pleasing, with the Company generating a 5.0 per cent return on its opening Net Asset Value in the year. In contrast, the FTSE Small Cap has fallen by 16.3 per cent over the same period, while the Share Price Total Return for an index of generalist VCTs which are members of the AIC has reduced by 4.2 per cent. The Company is now ranked second across all generalist VCTs when considering a blended average performance ranking over 1, 3, 5 and 10 years.

Two factors have driven this solid outcome. First, the Company achieved three strong exits from portfolio companies in the year, all at significant uplifts from where the companies were valued at the start of the year. Second, despite softer public markets resulting in reduced valuations multiples, the Company's underlying portfolio companies are continuing to grow; the ten largest investments in the portfolio are currently growing revenues at an average of c.51 per cent a year. This has helped to offset decreases in valuations, contributing to the Company's positive return.

Financial Performance

In 2022, the Company delivered a 3.1 pence per ordinary share increase in Total Return, which as noted above is equivalent to 5.0 per cent of the opening net asset value at 31 December 2021. Total Return is now 142.6 pence per ordinary share.

This was driven by the investment portfolio, which generated a return of £7.9 million, 11.2 per cent over its opening value, of which £3.6 million was realised and £4.3 million unrealised. New and follow-on investments totalling £16.3 million were completed.

Realisations in the Year

Realisations of investments generated total proceeds of £12.9 million, a gain of £3.6 million over the opening carrying value and £4.1 million over the original cost. There were three significant realisations in the year: Springboard and Intelligent Office in September 2022 and Vuealta in December 2022.

The realisation of Springboard generated proceeds of £5.8 million, representing a capital profit over cost of £3.9 million, an uplift of 46.0 per cent or £1.8 million on the carrying value at the beginning of the year. Including income, the total return from this investment was £6.6 million over a near eight year holding period, producing an internal rate of return of 23 per cent and a multiple of 4.1x cost. There is the prospect of further consideration in 2023 based on performance targets; however no value has been recognised relating to these potential payments at this time.

The sale of Intelligent Office generated proceeds of £4.1 million, representing a capital profit over cost of £2.1 million and an uplift of 29.0 per cent, or £0.9 million, on the carrying value at the beginning of the year. Including income, the total return from this investment was £5.0 million over an eight and a half year holding period, producing an internal rate of return of 14 per cent and a multiple of 2.6x cost.

In December 2022, the Company completed the partial exit of its investment in leading planning and forecasting software and services business, Vuealta, through the sale of its fast-growing software division to long-standing partner, Anaplan. The sale generated proceeds of £3.1 million, 1.5x cost, and an uplift of 49 per cent or £1.0 million on the carrying value at the beginning of the year (including further investments made in the financial year prior to sale). The Company remains invested in the core Vuealta consulting business to support its next phase of growth. Further details on Vuealta are given in the case study on page 24.

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

Shortly after year-end, the Company realised its investment in Wakefield Acoustics, generating a return of 1.5x cost. This was a pleasing result, given the investment was valued at £nil just nine months before, emphasising the need to support companies at all stages through their growth journey.

New Investments

The Company invested £16.3 million in the year. Six new investments were made in the year, totalling £8.1 million. In our continued support of the portfolio, nine companies received follow-on funding in the year, totalling £8.2 million in aggregate. The new investments are:

Investment	Sector
AutomatePro	SaaS platform providing test-automation tools for ServiceNow
Biorelate	Medical data curation
Plandek	DevOps analytics platform
Quality Clouds	Quality control technology for low code software solutions
Relative Insight	AI-based text data analytics platform
Summize	Contract lifecycle management software provider

Financial Results

During the year, the Board paid ordinary dividends of 3.0 pence per ordinary share in respect of the year ended 31 December 2022, bringing the cumulative dividends paid as at 31 December 2022 to 81.0 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 2021			61.5		87,375
Increase in value		2.3		4,287	
Gain on disposal of investments		2.0		3,586	
Net underlying change in investment portfolio		4.3		7,873	
Net operating costs		(0.5)		(985)	
Incentive fee		(0.4)		(635)	
Total Return in period			3.4		6,253
Issue/buy-back of new shares*			(0.3)		23,685
NAV before the payment of dividends			64.6		117,313
Dividends paid			(3.0)		(5,444)
NAV at 31 December 2022			**61.6**		**111,869**
Cumulative dividends paid			81.0		
Total Return:	**at 31 December 2022**		**142.6**		
	at 31 December 2021		139.5		

* The allotment of shares from the 2021/22 fundraising reduces total return per ordinary share as the fundraising was priced at the 30 September 2021 NAV per ordinary share but allotted shortly after 31 December 2021 for operational reasons.

Chairman's Statement (continued)

SHAREHOLDER RELATIONS

Annual General Meeting 15 June 2023

The Annual General Meeting of the Company will be held at 2:30 pm on 15 June 2023 at 8-10 Hill Street, London W1J 5NG. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 90.

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 £70.0 million, delivered a return over the year of £7.9 million.

The current portfolio's net valuation increased by £4.3 million. Within this there were valuation gains of £10.8 million, offset by £6.5 million of downward movements.

As anticipated by the impact of the changes to VCT regulations in 2015, the composition of the portfolio continues to evolve towards younger, higher growth companies which are reinvesting earnings for further growth. This, along with the ongoing realisation of earlier, more income-focused investments, results in the reduction of the Company's ongoing income. However, helped by the receipt of an ordinary dividend of £0.4 million from Displayplan and the benefit of higher interest rates on cash balances held, income in the year was £1.1 million, compared to £0.7 million in the previous financial year. The trend of lower ongoing income from the portfolio is expected to continue as the proportion of new investments continues to grow, though this may be offset by higher interest on cash deposits, at least in the short term.

Dividends

Dividends paid in the year totalled 3.0 pence per ordinary share. These comprised interim dividends of 3.0 pence per ordinary share for the year ended 31 December 2022. Cumulative dividends paid as at 31 December 2022 were 81.0 pence per ordinary share.

Following the realisations of Springboard and Intelligent Office, a special dividend for the year ending 31 December 2023 of 2.25 pence per ordinary share was paid on 11 January 2023, to shareholders on the register at 18 November 2022, increasing cumulative dividends to date to 83.25 pence per ordinary share.

An interim dividend for the year ending 31 December 2023 of 1.5 pence per ordinary share will be paid on 26 June 2023, to shareholders on the register at 12 May 2023.

Dividend Re-investment Scheme ("DRIS")

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

1 the dividends remain tax free; and

2 any DRIS investment attracts income tax relief at the rate of 30 per cent.

For the financial year ended 31 December 2022, £1.1 million was re-invested by way of the DRIS, from overall dividend proceeds of £5.4 million.

Liquidity and Fundraising

At 31 December 2022, the Company's cash reserves of £28.5 million represented 25.5 per cent of net assets; this includes £24.2 million from the Company's 2021/22 fundraise, for which the associated shares were allotted in January 2022.

Having previously assessed its expected cash requirements, the Company announced a new share offer on 30 November 2022, alongside British Smaller Companies VCT plc, with the intention of raising up to £75 million, in aggregate which included an over-allotment facility of £25 million, in aggregate. Gross Applications exceeding £62.5 million have been received as at the date of this report, of which £23.5 million relate to the Company. The related allotment will take place in early April 2023.

Share Premium Cancellation

Following shareholder approval at a General Meeting, in March 2022, the Company cancelled the balance of its Share Premium, £44.3 million, which was transferred to the Capital Reserve, giving the Company greater flexibility to continue to pay regular dividends to shareholders and to provide its periodic offer to buy back shares from shareholders. As set out on page 63, this will become available for distribution at various times over the period to 1 January 2026.

Shareholder Relations

The shareholder workshop held on 29 June 2022 was well attended. Attendees heard from economist and author Paul Collier; Ben Hookway, CEO of Relative Insight, one of the Company's recent investments; and Matthew Scullion of Matillion. The Matillion interview and the slides from the event can be viewed on the website www.bscfunds.com.

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

We are pleased to announce that the next in-person shareholder workshop will be held jointly with British Smaller Companies VCT Plc on 20 June 2023 at 1 Great George Street, Westminster, London SW1 3AA.

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.

Post Balance Sheet Events

Since year-end, the Company has invested £2.4 million into DrDoctor, a patient engagement and communications software platform. The Company also realised its investment in Wakefield Acoustics at the value recognised at 31 December 2022 (£0.6 million).

Outlook

As we look forward, inflation, and in turn interest rates, are showing signs of nearing peaks. The resilience of the Company's portfolio through a challenging period has been pleasing for me and my fellow board members, and we are hopeful that the experiences gained by the portfolio companies stand them in good stead to take advantage of opportunities as they arise in the coming year.

The Company's current fundraising is being well supported by new and existing shareholders, and we remain grateful as always for your ongoing trust and support. The funds raised will keep the Company well positioned to 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

Peter Waller
Chairman

20 March 2023

Objectives and Key Policies

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

Investment Policy

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

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

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

Borrowing

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

Co-investment

British Smaller Companies 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, short-notice bank accounts, money market funds and investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds).

Remuneration Policy

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

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

The Board regularly monitors the performance of the portfolio and the investment requirements set by the relevant VCT legislation. Reports are received from the Manager regarding the trading and financial position of each investee company and senior members of the Manager regularly attend the Company's Board meetings. Monitoring reports on compliance with VCT regulations are also received at each Board meeting so that the Board can monitor that the Venture Capital Trust status of the Company is maintained and take corrective action if appropriate. Monitoring reports carrying out an independent review of this compliance are received twice a year.

The Board reviews the terms of YFM Private Equity Limited's appointment as Manager on a regular basis.

YFM Private Equity Limited has performed investment advisory, management, administrative and secretarial services for the Company since its inception on 28 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 nature falling within the Company's investment policies.

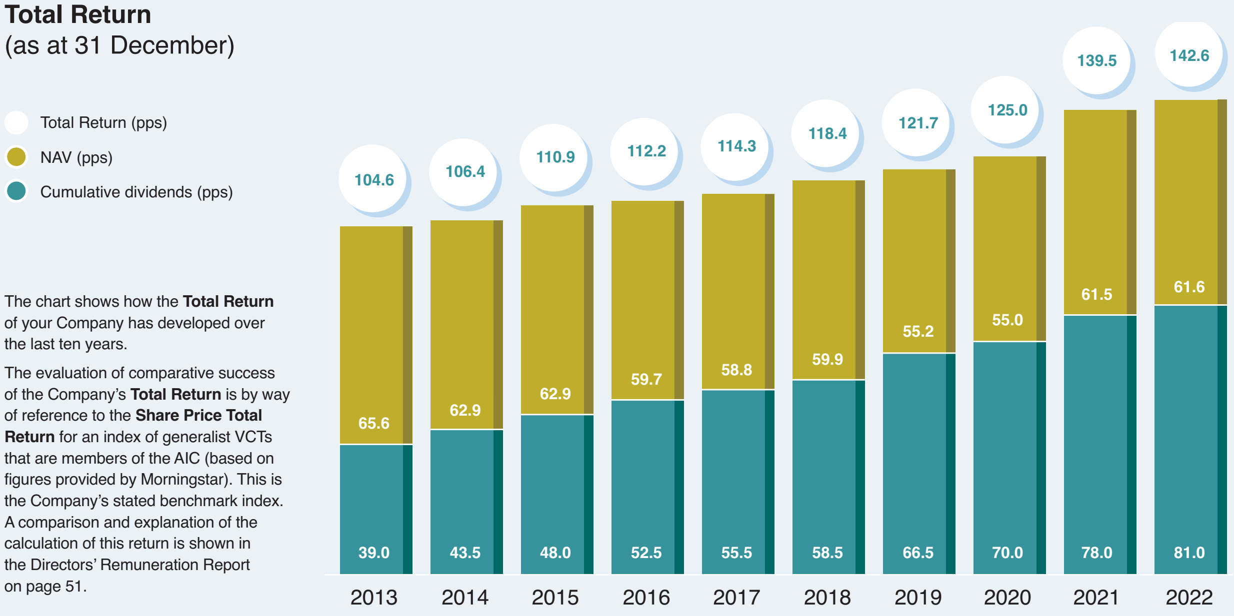
Administration of the Listed Investment Funds Quoted Portfolio

The Company holds a small portfolio of listed investment funds, the purpose of which is to optimise returns from liquid assets while preserving capital value. Reporting to the Manager, this portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

Key Performance Indicators

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

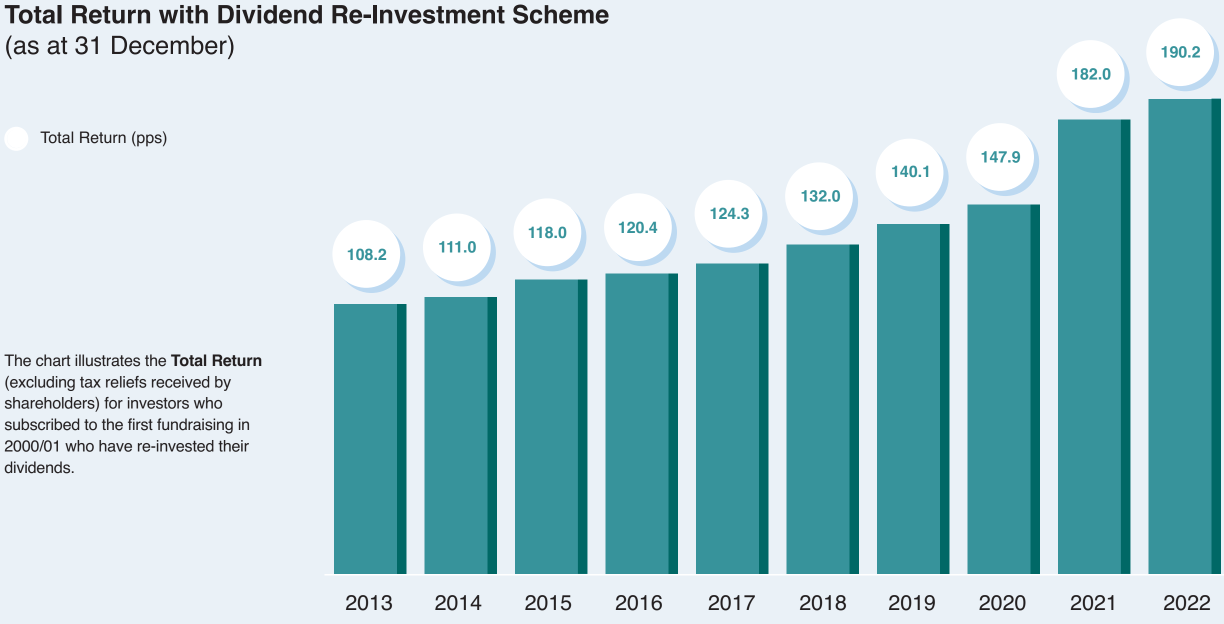
Total Return
(as at 31 December)



The chart shows how the **Total Return** of your Company has developed over the last ten years.

The evaluation of comparative success of the Company's **Total Return** is by way of reference to the **Share Price Total Return** for an index of generalist VCTs that are members of the AIC (based on figures provided by Morningstar). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 51.

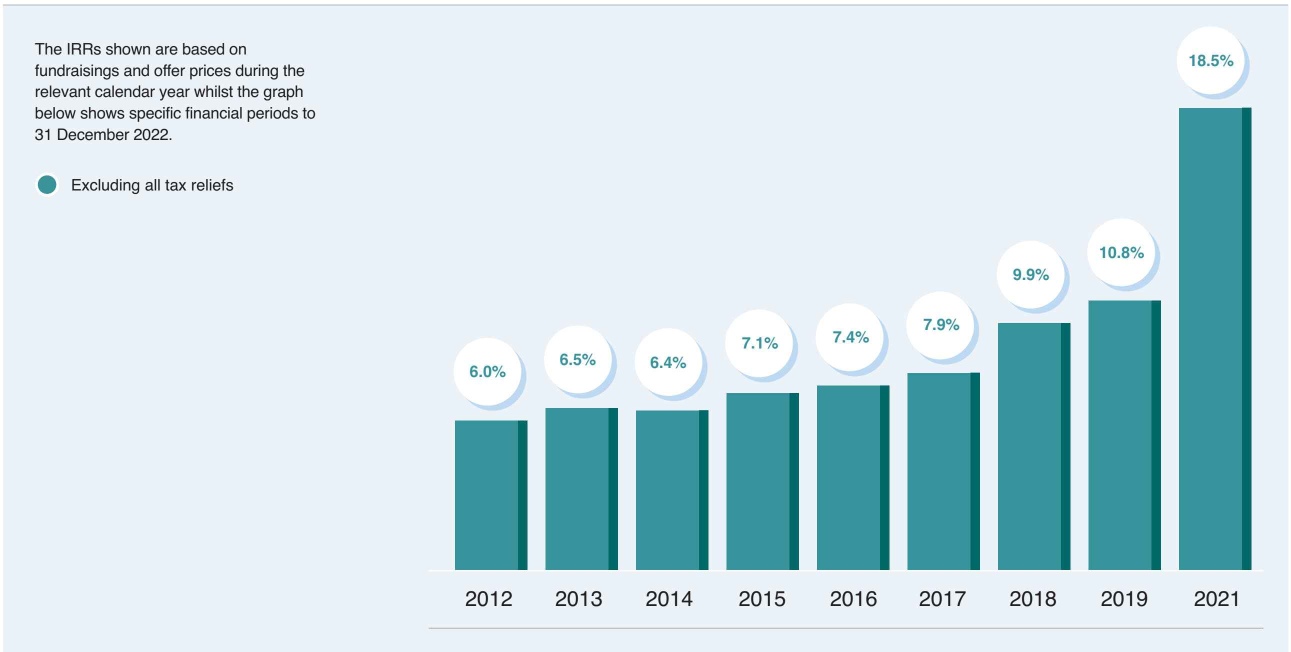
Total Return with Dividend Re-Investment Scheme
(as at 31 December)



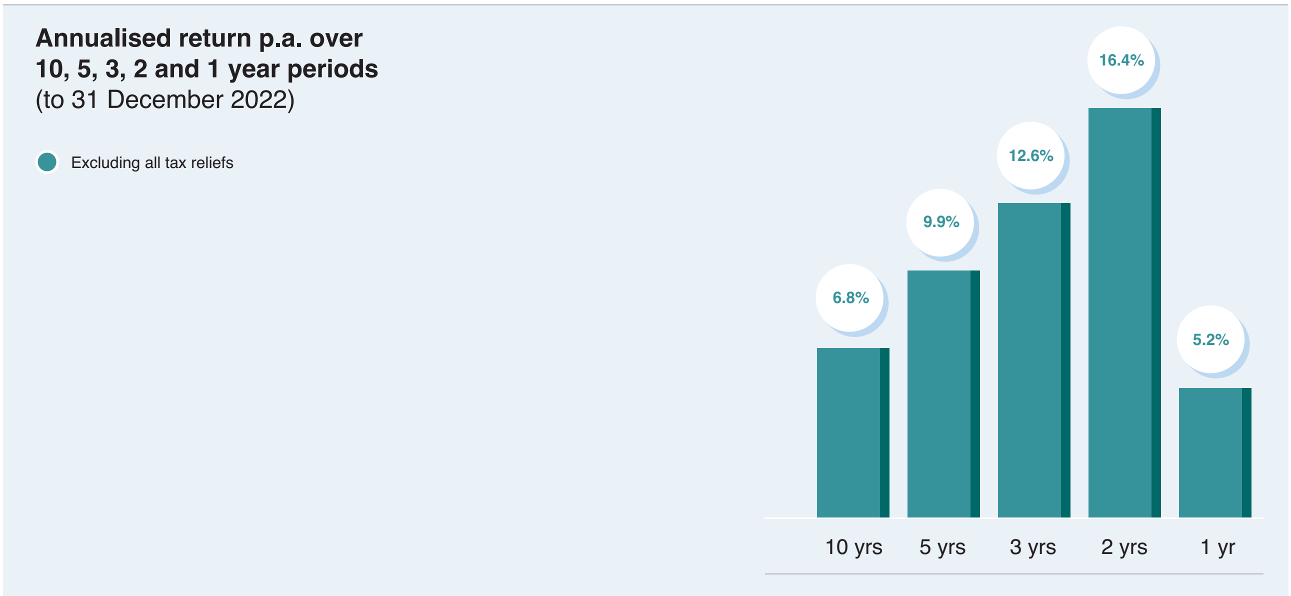
The chart illustrates the **Total Return** (excluding tax reliefs received by shareholders) for investors who subscribed to the first fundraising in 2000/01 who have re-invested their dividends.

Shareholder Returns

The Board considers Total Return to be the primary measure of shareholder value. The IRR returns from the offers over the last ten years are set out below. IRR is the annual rate of return that equates the cost at the date of the original investment, with the value of subsequent dividends plus the audited 31 December 2022 Net Asset Value per Share. This excludes the benefit of any initial tax relief.



Set out below is the annualised return over 10, 5, 3, 2 and 1 years to 31 December 2022. The annualised return is calculated with reference to the cumulative dividends paid in the period plus the unaudited NAV at 31 December 2022, compared to the NAV at the beginning of the relevant period.



Financial Overview
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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 2022 (%)	Year to 31 December 2021 (%)
Ongoing Charges figure*	**2.08**	2.16

* Alternative Performance Measure

The level of ongoing charges has fallen in the year due to the increased level of net assets. Shareholders also benefit from the Company's agreement with the Manager to pay a lower level of management fee of 1 per cent on surplus cash. The Company's ongoing charges ratio is one of the lowest in the VCT industry.

Expenses Cap

The total costs incurred by the Company in the year (excluding any performance related fees, trail commission payable to financial intermediaries and VAT) is capped at 2.9 per cent of the total net asset value as at the relevant year end. The treatment of costs in excess of the cap is described in note 3 on page 71. There was no breach of the expenses cap in the current or prior year.

Compliance with VCT Legislative Tests

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

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

Income Test

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

Retained Income Test

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

Qualifying InvestmentsTest

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

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

Eligible Shares Test

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

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

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

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

Investment Limits

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

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

Maximum Single Investment Test

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

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

Further restrictions placed on VCTs are:

Dividends from Cancelled Share Premium

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

Following shareholder approval at a General Meeting, in March 2022 the Company cancelled the balance of its Share Premium, £44.3 million, of which £16.4 million is now distributable. The remaining £27.9 million will become distributable over the period to 1 January 2026, as set out on page 63.

Other

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

a. The business has previously received an investment from a source that has received state aid; or

b. The investment comprises more than 50 per cent of the average of the previous five years' turnover and the funds are to be used in the business to fund growth into new product markets and/or new geographies.

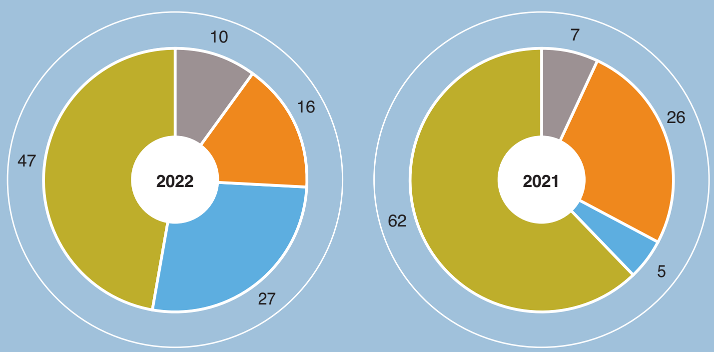
Wherever possible, the Company self-assures that an investment is a Qualifying Investment, subject to the receipt of professional advice.

Portfolio Structure and Analysis

Portfolio Structure

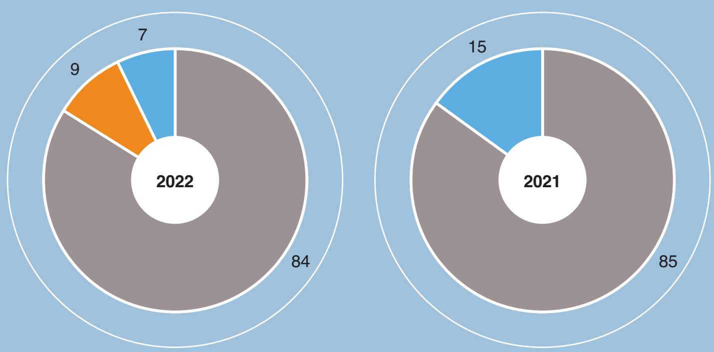
The broad range of the portfolio is illustrated below, with 47 per cent of the portfolio valuation being held for more than five years, whilst 93 per cent is held at cost or above. 18 per cent of the portfolio value is held in loans and preference shares, although loans now account for only 4 per cent of the value.

AGE OF INVESTMENTS (%)



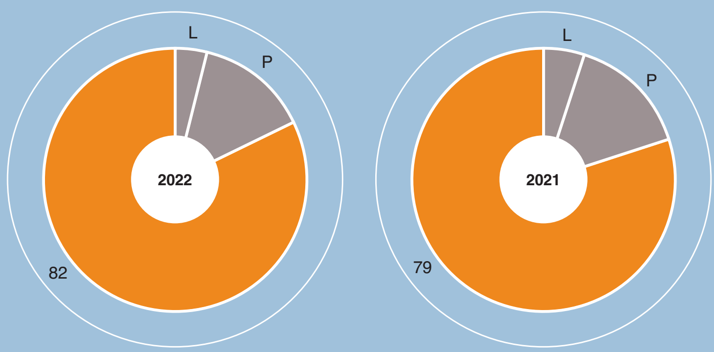
- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- Greater than 5 years

VALUE COMPARED TO COST (%)



- Value above cost
- At cost
- Value below cost

INVESTMENT INSTRUMENT (%)



- L Loan
- P Preference shares
- Equity

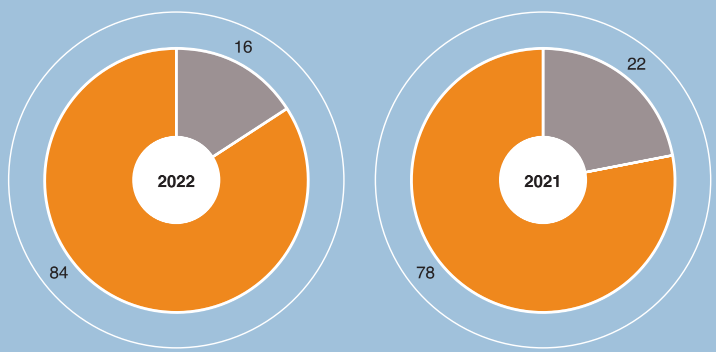
Loan and Preference shares: 2022 - 18%, 2021 - 21%

Portfolio Analysis

Also included below is a profile of the portfolio by investments made before and after the VCT rule changes in 2015, and the break down by industry sector.

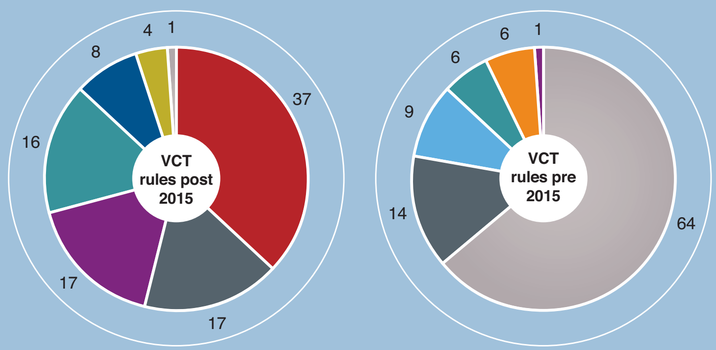
VCT RULES (%)

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



INDUSTRY SECTOR (%)

- Data
- Tech-enabled Services
- New Media
- Application Software
- Cloud & DevOps
- Retail & Brands
- Business Services
- Advanced Manufacturing
- Other



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Investment Review

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

Table A
Investment Portfolio

	Portfolio £million	Listed investment funds £million	Investment Portfolio £million
Opening fair value at 1 January 2022	70.0	-	70.0
Additions	16.3	1.7	18.0
Disposal proceeds	(12.9)	-	(12.9)
Valuation movement	8.0	(0.1)	7.9
Closing fair value at 31 December 2022	**81.4**	**1.6**	**83.0**

At 31 December 2022 the investment portfolio was valued at £83.0 million, representing 74.2 per cent of net assets (80.1 per cent at 31 December 2021). Cash and fixed term deposits at 31 December 2022 of £28.5 million represented 25.5 per cent of net assets (24.3 per cent at 31 December 2021).

The Portfolio

£81.4 million

Fair value of the portfolio
(2021: £70.0 million)

26

Number of portfolio companies with a value of more than £0.5 million
(2021: 22)

£0.8 million

Income from the portfolio
(2021: £0.7 million)

£16.3 million

Level of investment
(2021: £6.1 million)

£8.0 million

Return from portfolio
(2021: £26.0 million)

The portfolio showed robust performance in the period, adding £8.0 million of value on the opening fair value of £70.0 million. The composition of investments continues to show its dynamism, with £16.3 million invested in the period and cash proceeds of £12.9 million received.

Fair value changes

Table B
Investment Portfolio

	£million	%
Gain in fair value from the portfolio	4.4	55
Gain on disposal over opening value from the portfolio	3.6	45
Gain arising from the portfolio	**8.0**	**100**
Fall in value of other investments	(0.1)	
Gain arising from the investment portfolio	**7.9**	

Of the £8.0 million gain in the year, £3.6 million arose from investments which were realised, including Springboard (£1.8 million), Intelligent Office (£0.9 million) and the partial realisation of Vuealta (£1.0 million). Further details can be found in the Chairman's Statement and note 7 to the financial statements.

The ongoing portfolio delivered a net value gain of £4.4 million in the year. It is pleasing to see the fair value increases arising across a range of companies, including tech-focused businesses such as Outpost, Unbiased and Vuealta, as well as legacy companies such as Displayplan and ACC.

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

Other Significant Investment Movements

Investments

During the year ended 31 December 2022, the Company invested £16.3 million across 15 companies.

Six new companies were added to the portfolio, receiving aggregate investment of £8.1 million; while a further £8.2 million was invested across nine existing portfolio companies. The analysis of these investments is shown in Table C. The case study on page 24 gives more information on the investment in AutomatePro.

Table C
Investments

Company	New £million	Investments made Follow-on £million	Total £million
Outpost	-	2.0	2.0
Relative Insight	2.0	-	2.0
Unbiased	-	1.8	1.8
AutomatePro	1.5	-	1.5
Plandek	1.4	-	1.4
Summize	1.2	-	1.2
Vypr	-	1.2	1.2
Biorelate	1.0	-	1.0
Quality Clouds	1.0	-	1.0
Elucidat	-	0.8	0.8
Wooshii	-	0.7	0.7
Vuealta	-	0.6	0.6
Force24	-	0.5	0.5
Sipsynergy	-	0.4	0.4
Other (including capitalised income)	-	0.2	0.2
Portfolio	**8.1**	**8.2**	**16.3**
Listed investment funds			1.7
Total additions in the year			**18.0**

Investment Review (continued)

Disposal of Investments

During the year to 31 December 2022, the Company received proceeds from disposals of £12.9 million, a net gain of £3.6 million over the opening carrying value at the beginning of the year, and an overall net gain of £4.1 million over cost. This included the successful realisations of Springboard, Intelligent Office and Vuealta. 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 2021* £million	Gain on opening value £million
Total investment disposals	**12.9**	**9.3**	**3.6**

* Including further investments during the year prior to realisation.

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

Investment Portfolio Composition

As at 31 December 2022, the portfolio was valued at £81.4 million, comprising wholly of unquoted investments. An analysis of the movements in the year is shown on page 75.

The portfolio has 26 investments valued above £0.5 million, four more than a year earlier, with the single largest investment, Matillion, representing 19.6 per cent of the net asset value.

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

Under VCT legislation, it is not possible to deposit funds for longer than seven days, which means that cash deposits must be available on very short notice. The Board and the Manager continually review opportunities to generate a higher level of income, without significantly changing the risk profile of the funds held. As part of this, the Company holds a small diversified quoted portfolio of listed investment funds, managed by Brewin Dolphin Limited. At 31 December 2022, this quoted portfolio was valued at £1.6 million, or 1.4 per cent of net assets. The quoted portfolio value decreased by £0.1 million in the year.

Valuation Policy

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

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

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

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

Table E shows the value of investments within each valuation category as at 31 December 2022; no investments are currently valued using discounted cash flow methodologies.

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

Table E
Valuation Policy

	2022		2021
	Valuation £million	% of portfolio by value	% of portfolio by value
Revenue multiple	61.6	75	78
Earnings multiple	9.9	12	19
Cost or price of recent investment, reviewed for change in fair value	5.3	7	-
Sale proceeds	2.6	3	-
Net assets, reviewed for change in fair value	2.0	3	3
Total	**81.4**	**100**	100

Sustainable Investment and Environmental, Social and Governance ("ESG") Management

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

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

Grow our economy

Improve our society

Value their people

Protect the environment

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

Sustainable Investment Principles

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

> To seek to understand the ESG related impacts 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; and

> To be a proactive signatory to the PRI and to integrate its principles into the Manager's business practices.

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

Investment Review (continued)

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

> **Pre-investment Phase:**

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

> **Portfolio Phase:**

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

> **Reporting:**

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

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

ESG Performance Data and Reporting

ESG KPI data analysis

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

Annual company specific ESG performance progress report

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

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

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

Growing our economy

> £44.7 million of R&D investment during 2022

> £51.6 million of export sales achieved in 2022

Improving our society

> 95 per cent of companies were independently chaired in 2022

> 40 per cent of companies had female directors on boards, with 20 per cent having a female CEO

> 40 per cent of businesses had a designated board member with responsibility for improving ESG issues

Valuing our people

- 35 per cent of the portfolio workforce was female in 2022
- 995 new jobs were created from date of investment to 2022
- 75 per cent had mental wellbeing programmes in place and 70 per cent held regular employee engagement surveys
- Approaching 29,000 hours of training was given to employees

Protecting our environment

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

Summary and Outlook

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

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

David Hall
YFM Private Equity Limited

20 March 2023

Case Studies

AutomatePro

Let's make progress

AMOUNT INVESTED

£1.5 million

BUSINESS AT INVESTMENT

A cloud based intelligent test automation and DevOps software provider

THE INVESTMENT

Growth capital to fund US expansion, tech innovation and customer success capabilities

RATIONALE FOR THE DEAL

To scale up AutomatePro's sales, marketing and customer success functions and to develop innovative new product modules. The investment will also help the business continue expansion into the US, filling the demand from the existing and growing ServiceNow ecosystem

VUEALTA

AMOUNT INVESTED

£2.0 million

BUSINESS AT INVESTMENT

Scenario planning and forecasting solutions for supply chain, finance, HR and operations through the Anaplan platform

THE INVESTMENT

Growth capital to enable further growth and overseas expansion

RATIONALE FOR THE DEAL

The investment backs the experienced founders and management team to continue their global expansion strategy alongside US-based Anaplan. Vuealta is an Anaplan Gold Partner and has a seat on the Anaplan Global Strategic Council

SINCE INVESTMENT

Vuealta's software division rapidly developed and demonstrated its business potential, which led to the decision by Anaplan to acquire the business. The Company remains invested in the core Vuealta consulting business to support its next phase of growth

Portfolio Summary

at 31 December 2022

Page No	Name of company	Date of initial investment	Location	Industry Sector	Amount invested £000	Valuation at 31 December 2022 £000	Recognised income/ proceeds to date £000	Realised & unrealised value to date* £000
28	Matillion Limited	Nov-16	Manchester	Data	1,778	21,874	5,946	27,820
28	Outpost VFX Limited	Feb-21	Bournemouth	New Media	3,000	6,202	10	6,212
29	Unbiased EC1 Limited	Dec-19	London	Tech-enabled Services	3,731	6,072	-	6,072
29	Wooshii Limited	May-19	London	New Media	3,096	4,197	305	4,502
29	Displayplan Holdings Limited	Jan-12	Stevenage	Business Services	700	4,109	1,706	5,815
30	Elucidat Ltd	May-19	Brighton	Application Software	2,640	4,039	4	4,043
30	ACC Aviation Group Limited	Nov-14	Reigate	Business Services	1,379	3,575	3,525	7,100
30	Force24 Ltd	Nov-20	Leeds	Application Software	2,100	3,091	-	3,091
31	Vypr Validation Technologies Limited	Jan-21	Manchester	Tech-enabled Services	2,200	2,598	-	2,598
31	SharpCloud Software Limited	Oct-19	London	Data	2,271	2,508	-	2,508
	Relative Insight Limited	Mar-22	Lancaster	Tech-enabled Services	2,000	2,010	-	2,010
	Investment companies	Apr-15	-	-	2,500	1,961	-	1,961
	KeTech Enterprises Limited	Nov-15	Nottingham	Tech-enabled Services	2,000	1,788	2,599	4,387
	Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,485	-	1,485
	AutomatePro Limited	Dec-22	London	Cloud & DevOps	1,483	1,483	-	1,483
	Plandek Limited	Oct-22	London	Cloud & DevOps	1,380	1,380	-	1,380
	Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Cloud & DevOps	2,045	1,378	-	1,378
	Traveltek Group Holdings Limited	Oct-16	East Kilbride	Application Software	1,163	1,359	527	1,886
	Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	1,284	-	1,284
	Summize Limited	Oct-22	Manchester	Application Software	1,200	1,200	-	1,200
	Vuealta Holdings Limited	Sep-21	London	Tech-enabled Services	2,030	1,192	3,067	4,259
	Ncam Technologies Limited	Mar-18	London	New Media	1,762	1,175	87	1,262
	Biorelate Limited	Nov-22	Manchester	Application Software	1,040	1,040	-	1,040
	Quality Clouds Limited	May-22	London	Cloud & DevOps	1,000	1,000	-	1,000
	Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data	1,000	1,000	-	1,000
	E2E Engineering Limited	Sep-17	Welwyn Garden City	Business Services	600	800	142	942
	Wakefield Acoustics** (via Malvar Engineering Limited)	Dec-14	Wakefield	Advanced Manufacturing	761	648	442	1,090
	Other investments below £0.5 million				10,136	937	5,210	6,147
	Total unquoted investments				**57,787**	**81,385**	**23,570**	**104,955**
	Full disposals to date				45,622	-	74,347	74,347
	Total portfolio				**103,409**	**81,385**	**97,917**	**179,302**

* represents recognised income and proceeds received to date plus the unrealised valuation at 31 December 2022.

** realised in January 2023 at the valuation shown.

Summary of Portfolio Movement

since 31 December 2021

Name of Company	Investment valuation at 31 December 2021 £000	Disposal proceeds £000	Additions including capitalised income £000	Valuation gains including profits/(losses) on disposal £000	Investment valuation at 31 December 2022 £000
Outpost VFX Limited	1,614	-	2,000	2,588	6,202
Vuealta Holdings Limited/Vuealta Group Limited	1,491	(3,067)	631	2,137	1,192
Unbiased EC1 Limited	3,082	-	1,767	1,223	6,072
Wooshii Limited	3,162	-	656	379	4,197
Traveltek Group Holdings Limited	983	-	-	376	1,359
Elucidat Limited	2,926	-	840	273	4,039
Panintelligence (via Paninsight Limited)	750	-	-	250	1,000
Frescobol Carioca Ltd	1,148	-	-	136	1,284
E2E Engineering Limited	688	-	-	112	800
Vypr Validation Technologies Limited	1,386	-	1,200	12	2,598
Relative Insight Limited	-	-	2,000	10	2,010
AutomatePro Limited	-	-	1,483	-	1,483
Plandek Limited	-	-	1,380	-	1,380
Summize Limited	-	-	1,200	-	1,200
Biorelate Limited	-	-	1,040	-	1,040
Quality Clouds Limited	-	-	1,000	-	1,000
Tonkotsu Limited	1,520	-	-	(35)	1,485
Force24 Ltd	2,773	-	500	(182)	3,091
Other investments £0.5 million and below	310	-	160	(316)	154
SharpCloud Software Limited	2,927	-	-	(419)	2,508
Ncam Technologies Limited	1,636	-	-	(461)	1,175
Sipsynergy (via Hosted Network Services Limited)	1,561	-	409	(592)	1,378
Arcus Global Limited	1,324	-	-	(1,119)	205
Matillion Limited	25,050	-	-	(3,176)	21,874
Investments made after November 2015	54,331	(3,067)	16,266	1,196	68,726
Displayplan Holdings Limited	1,891	-	-	2,218	4,109
Springboard Research Holdings Limited	3,959	(5,782)	-	1,823	-
ACC Aviation Group Limited	2,450	-	-	1,125	3,575
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	3,163	(4,080)	-	917	-
Other investments £0.5 million and below	2,063	-	-	476	2,539
Wakefield Acoustics (via Malvar Engineering)	186	-	-	462	648
KeTech Enterprises Limited	1,976	-	-	(188)	1,788
Investments made prior to November 2015	15,688	(9,862)	-	6,833	12,659
Total investments	**70,019**	**(12,929)**	**16,266**	**8,029**	**81,385**

Investee Company Information

Data

Fair Value
£25.4m

Number of companies
3

Tech-enabled Services

Fair Value
£13.7m

Number of companies
5

Application Software

Fair Value
£11.8m

Number of companies
7

New Media

Fair Value
£11.7m

Number of companies
4

Business Services

Fair Value
£8.9m

Number of companies
5

Cloud & DevOps

Fair Value
£5.2m

Number of companies
4

Retail and Brands

Fair Value
£2.8m

Number of companies
2

Advanced Manufacturing

Fair Value
£0.8m

Number of companies
2

Other

Fair Value
£1.1m

Number of companies
6

Portfolio

The top 10 investments had a combined value of £58.3 million, 71.6 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

MATILLION

Cost:	£1,456,000
Valuation:	£21,874,000
Date of initial investment:	November 2016
Equity held:	3.1%
Valuation basis:	Revenue multiple

Year ended 31 December	2022* $million	2020 $million
Revenue	**57.26**	29.98
LBITA	**(31.34)**	(11.57)
Loss before tax	**(31.60)**	(11.89)
Retained losses	**(68.30)**	(36.88)
Net assets	**226.96**	22.89

* 13 months to 31 January 2022

Outpost VFX Limited
Bournemouth

Outpost is a visual effects firm best known for their striking environments, seamless digital makeup and photoreal creatures. The company is headquartered in Bournemouth, with studios in Montreal and London. An impressive client list includes global streaming platforms such as Netflix, Amazon and Apple, and major Hollywood studios.

www.outpost-vfx.com

out post

Cost:	£3,000,000
Valuation:	£6,202,000
Date of initial investment:	February 2021
Equity held:	11.5%
Valuation basis:	Revenue multiple
Interest:	£10,137 (2021 £nil)

Year ended 31 March	2022* £million	2021* £million
Revenue	**19.08**	7.47
LBITA	**(0.02)**	(1.16)
Loss before tax	**(0.41)**	(1.75)
Retained losses	**(4.03)**	(3.72)
Net assets	**0.89**	1.20

* 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. The proven UK model is now being launched into the much larger US financial advisor market.

www.unbiased.co.uk

Cost:	£3,731,000
Valuation:	£6,072,000
Date of initial investment:	December 2019
Equity held:	12.3%
Valuation basis:	Revenue multiple

Year ended 30 September	2022 £million	2021 £million
Revenue	**8.00**	5.73
EBITA (LBITA)	**0.29**	(0.58)
Loss before tax	**(0.32)**	(1.09)
Retained losses	**(2.19)**	(1.90)
Net assets	**2.40**	2.69

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. Wooshii has also developed software tools to enable its customers to extract greater value from their historic libraries.

www.wooshiivideoagency.com

Cost:	£3,096,000
Valuation:	£4,197,000
Date of initial investment:	May 2019
Equity held:	13.3%
Valuation basis:	Revenue multiple
Dividends:	£109,800 (2021 £90,074)

Year ended 31 March	2022* £million	2021* £million
Revenue	**4.30**	2.63
LBITA	**(1.18)**	(1.07)
Loss before tax	**(1.45)**	(1.24)
Retained losses	**(5.97)**	(4.51)
Net liabilities	**(4.06)**	(2.95)

* Unaudited

Displayplan Holdings Limited
Stevenage

Displayplan specialises in creating and delivering permanent in-store "point of purchase" display and fixtures. It provides a complete retail display consultancy service from concept through to design, sourcing and final installation. Clients include M&S, Sainsburys and Nike.

www.displayplan.com

Cost:	£70,000
Valuation:	£4,109,000
Date of initial investment:	January 2012
Equity held:	12.0%
Valuation basis:	Earnings multiple
Dividends:	£377,000 (2021 £73,500)

Year ended 31 December	2021 £million	2020 £million
Revenue	**23.62**	18.01
EBITA	**2.48**	1.40
Profit before tax	**2.28**	1.22
Retained profits	**7.97**	6.54
Net assets	**8.38**	6.95

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:	£2,640,000
Valuation:	£4,039,000
Date of initial investment:	May 2019
Equity held:	10.0%
Valuation basis:	Revenue multiple
Interest:	£19,397 (2021 £20,000)
Dividends:	£4,384 (2021 £nil)

Year ended 31 December	**2021 £million**	2020 £million
Revenue	**5.11**	3.00
LBITA	**(0.06)**	(0.49)
Loss before tax	**(0.77)**	(0.92)
Retained losses	**(1.72)**	(1.12)
Net assets	**1.80**	2.41

ACC Aviation Group Limited
Reigate

ACC Aviation is the market leader in airline-to-airline "wet lease" brokerage and associated services. The company also provides a range of consultancy and specialist charter services to clients via its global office network.

www.accaviation.com

Cost:	£145,000
Valuation:	£3,575,000
Date of initial investment:	November 2014
Equity held:	18.5%
Valuation basis:	Earnings multiple

Year ended 31 December*	**2021 £million**	2020 £million
Revenue	41.84	34.91
EBITA (LBITA)	0.84	(0.67)
Loss before tax	(2.23)	(3.75)
Retained profits	9.71	12.26
Net assets	9.73	12.27

*information for NEWACC (2018) Limited shown

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:	£2,100,000
Valuation:	£3,091,000
Date of initial investment:	November 2020
Equity held:	13.3%
Valuation basis:	Revenue multiple

Year ended 31 December	**2021 £million**	2020 £million
Revenue	**4.55**	3.48
LBITA	**(1.96)**	(0.09)
Loss before tax	**(2.26)**	(0.66)
Retained losses	**(1.83)**	(0.19)
Net assets	**1.97**	3.61

Vypr Validation Technologies Limited
Manchester

Vypr is a cloud-based data validation platform providing industry-leading consumer intelligence for use in all aspects of product development including packaging, pricing and naming.

www.vyprclients.com

Cost:	£2,200,000
Valuation:	£2,598,000
Date of initial investment:	January 2021
Equity held:	12.9%
Valuation basis:	Revenue multiple

Year ended 31 March	**2022 £million**	2021 £million
Revenue	**2.07**	1.46
LBITA	**(1.20)**	(0.03)
Loss before tax	**(1.49)**	(0.27)
Retained losses	**(1.48)**	(0.16)
Net assets	**1.05**	2.37

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:	£2,508,000
Date of initial investment:	October 2019
Equity held:	13.0%
Valuation basis:	Revenue multiple

Year ended 31 December	**2021 £million**	2020 £million
Revenue	**1.80**	1.42
LBITA	**(0.76)**	(1.64)
Loss before tax	**(1.05)**	(1.83)
Retained losses	**(3.38)**	(2.45)
Net assets	**3.11**	1.54

Risk Factors

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

The Board seeks to mitigate its emerging and principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in section 4: "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 17a of the financial statements.

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

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

Risk	Mitigation	Change
VCT Qualifying Status: The Company must at all times ensure compliance with the conditions for maintenance of approved VCT status. The loss of approval as a VCT could lead to its investors losing the various tax benefits associated with VCT investments.	One of the Key Performance Indicators monitored by the Company is the compliance with VCT rules. Compliance with these rules is closely monitored by the Manager on an ongoing basis and regularly reported to and reviewed by the Board. The Company also makes use of external experts, who review the Company's compliance with VCT rules on a regular basis. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" on pages 14 and 15.	No change
Economic: Events such as recession and interest rate fluctuations, which may include factors arising from geopolitical shocks, could adversely affect investee companies' performance and valuations. This could result in a reduction in the performance of the Company.	As well as the response to the 'Investment and Strategic' risk on page 33, the Company has a clear investment policy (summarised on page 10) and a diversified portfolio operating in a range of sectors which helps to mitigate against sector specific impacts. The Manager actively monitors investee company performance, which provides quality information for monthly reviews of the portfolio.	Increased – following a reduction of risk owing to COVID19 restrictions ending, the war in Ukraine and rising global inflation has created a small increase to this risk.

Risk	Mitigation	Change
Investment and Strategic: 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.	The Board reviews strategy annually. At each of the Board meetings, the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment and peer group activity. It also reviews compliance of the Manager with the stated investment strategy. The Manager carries out appropriate due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible, a nonexecutive director will be appointed to the board of the investee company on behalf of the Company.	No change
Regulatory: 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 Financial Reporting 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.	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.	No change
Legislative: A change to the VCT regulations could result in a significant change to investment strategy which could adversely impact the Company. Such changes may also result in changes to VCT tax reliefs for investors, which could make future fundraising difficult.	The Manager is a member of the Venture Capital Trust Association which engages with the Government to help shape future legislation.	No change
Reputational: Inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.	The Board is comprised of directors with suitable experience and qualifications who report annually to the shareholders on their independence. The Manager is well-respected, with a proven track record. It has a formal recruitment process to employ experienced investment staff. Advice is sought from external advisors where required.	No change

Risk Factors (continued)

Risk	Mitigation	Change
Operational: The Company is reliant on a number of third parties, in particular the Manager, for investment management and administration services. Failure of the operational systems and Controls of these third parties could result in an inability to provide accurate reporting and monitoring.	The Manager has a documented business continuity plan, which provides for back-up services in the event of a system breakdown. The Manager's systems are protected against viruses and other cyber-attacks. The Manager regularly tests its business continuity plan. Both the Company and the Manager maintain appropriate insurances.	No change
Cyber Security and Information Technology: A failure in IT systems and controls might lead to business interruption, loss of data, the inability of the Manager to provide accurate reporting and monitoring or the loss of Company records.	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.	No change
ESG: The Company, the Manager and the portfolio companies may fail to positively contribute towards, and adapt to, the global transition towards decarbonisation and other ESG priorites, 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.	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.	No change
Liquidity: a. The Company may not have sufficient liquidity available to meet its financial obligations. b. The VCT invests into smaller unquoted companies, which by their nature are illiquid, therefore they may be difficult to realise, at fair market value, at short notice.	The Company's overall liquidity risks and cashflow forecasts are monitored on an ongoing basis by the Manager and on a quarterly basis by the Board. The Company's valuation methodology takes account of potential liquidity restrictions in the markets in which it invests. For any publicly listed investments, accounting standards require an ongoing assessment of the liquidity of the stock. The Manager regularly reviews its exit plans for investee companies to allow it to identify the optimal point at which to seek a sale. As part of a planned exit, the assistance of a third party adviser will normally be sought, with a view to identifying the largest number of possible purchasers.	No change

Other Matters

Section 172 Statement

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

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

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

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

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

Following shareholder approval at a General Meeting, in March 2022, the Company cancelled the balance of its Share Premium, £44.3 million, which was transferred to the Capital Reserve, giving the Company greater flexibility to continue to pay regular dividends to shareholders and to provide its periodic offer to buy back shares from shareholders. As set out on page 63, this will become available for distribution at various times over the period to 1 January 2026.

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 in the year ended 31 December 2022, a special dividend of 2.25 pence per ordinary share was paid in January 2023, following the realisation of the Company's investments in Springboard and Intelligent Office.

Manager

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

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

Other Matters (continued)

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

Portfolio Companies

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

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

Employees

The Company has no employees. The Board is composed of one female non-executive director and 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

Peter Waller
Chairman

20 March 2023

Directors

Peter Waller *Chairman*

(appointed to the Board 1 November 2010, took over the role of Chair on 7 May 2019) 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. 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 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 McDowell

Chair of the Audit & Risk Committee (appointed 6 March 2019) has considerable experience as a chairman and non-executive director of a wide range of technology, business services and manufacturing businesses. Following the flotation of his family's business and subsequent trade sale, he began his plural career in 2000, when he took board roles in three private equity backed technology businesses. He is chairman of Hargreaves Services Plc, 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
The Mending Rooms
Park Valley Mills
Meltham Road
Huddersfield
HD4 7BH

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 2022

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2022.

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.

The Board believes that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 £6,253,000 (2021: £20,389,000).

During the year the Company paid a total of £5,444,000 (2021: £11,015,000) in dividends totalling 3.0 pence per ordinary share (2021: 8.0 pence). A detailed review can be found in note 5 on page 73.

A special dividend of 2.25 pence per ordinary share in respect of the year ending 31 December 2023 was paid on 11 January 2023 to shareholders on the register on 18 November 2022. The directors have announced an interim dividend of 1.5 pence per ordinary share for the year ending 31 December 2023. The dividend will be paid on 26 June 2023 to shareholders on the register on 12 May 2023.

The net asset value per ordinary share at 31 December 2022 was 61.6 pence (2021: 61.5 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; the Company is well placed to provide this, where appropriate.

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

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

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 2022, the Company held cash balances, listed investment funds and fixed term deposits with a combined value of £30,070,000; this excludes gross Applications of £23.5 million to date from the current fundraising, which will be allotted in April 2023. 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 buy-backs and dividends. In the year ended 31 December 2022, the Company's costs and discretionary expenditures were:

	£'000
Administrative expenses (before fair value movements related to credit risk and incentive fee)	2,359
Share buy-backs	1,572
Dividends (before DRIS)	5,444
Total	**9,375**

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 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 reserves of cash (plus anticipated proceeds following allotment of the current fundraising in April 2023), 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 2025 or on 13 June 2025, 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 21 March 2022, being 27,338,720 ordinary shares.

During the year, the Company purchased 2,737,038 ordinary shares of 10 pence each in the market (as disclosed in the table on page 40), for aggregate consideration, including costs, of £1,572,000. These shares are held in treasury. The buy-back was in accordance with the Company's buy-back policy, and under the authorities granted by the shareholders at general meetings held on 7 May 2019 and 13 June 2022. At 31 December 2022 18,666,812 shares were held in treasury, representing 9.3 per cent of the total issued share capital (including treasury shares) at that date.

Directors' Report (continued)

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 13 September 2023.

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.

40,224,521 shares were issued arising from the Company's January 2022 fundraising. These shares were issued under the previous authority granted by the shareholders at the annual general meeting on 10 June 2021, which expired on 10 September 2022. Further details are given in note 11 on page 83.

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 2022, a total of 1,826,028 ordinary shares were issued under the Company's DRIS.

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)
29 March 2022	1,182,557	0.65%	58.93
28 June 2022	380,153	0.21%	57.50
27 September 2022	556,386	0.31%	56.36
16 December 2022	617,942	0.34%	54.22

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 2022, 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 2022 and the date of this report.

Independent Auditor

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

There were no non-audit service provided by BDO LLP during the year.

Financial Instruments

Details of the financial instruments held by the Company and the risks associated with them are set out on pages 80 to 84 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 49.

Events after the Balance Sheet Date

Having previously assessed its expected cash requirements, the Company announced a new share offer on 30 November 2022, alongside British Smaller Companies VCT plc, with the intention of raising up to £75 million, in aggregate which included an over-allotment facility of £25 million, in aggregate. Gross Applications exceeding £62.5 million have been received as at the date of this report, of which £23.5 million relate to the Company. The related allotment will take place in early April 2023.

Since year-end, the Company has invested £2.4 million into DrDoctor, a patient engagement and communications software platform. The Company also realised its investment in Wakefield Acoustics at the value recognised at 31 December 2022 (£0.6 million).

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 90 to 92 of these financial statements.

The business of the meeting includes an ordinary resolution (**Resolution 8**) proposed to ensure the directors retain the authority to allot shares in the Company until the later of 15 September 2024 or the date of the 2024 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 20 March 2023, excluding treasury shares).

Also included is the following special resolution:

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

This report was approved by the Board on 20 March 2023 and signed on its behalf by

Peter Waller

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 2022 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, 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, Ms B L Anderson's and Mr R S McDowell's appointment are terminable by either the director or the Company on three months' notice.

The directors recommend the re-election of Mr P C Waller, 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 two General meetings. The directors met via video, telephone and electronic conferences on 38 other occasions.

Corporate Governance (continued)

Meetings Attended

Director	Mr P C Waller	Ms B L Anderson	Mr R S McDowell	Total
Board meetings	9	9	7	9
Audit & Risk Committee	3	3	3	3
Nominations & Remuneration Committee	2	2	2	2
Allotment Committee	-	1	-	1
Video, telephone & electronic conferences	38	38	37	38
General meeting	2	1	1	2
Total	**54**	**54**	**50**	**55**

In addition, there were two 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 2022. 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;

> Reviewing and monitoring the Company's tax status and compliance;

> 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 management 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.bscfunds.com.

The Company does not have an 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 2022 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, 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 seventh 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 second 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. No non-audit services were provided by BDO LLP during the year.

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.

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. 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 and Notice of the Annual General Meeting are 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 2022 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);

> 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.

Corporate Governance (continued)

The Company was registered with the FCA as a Small Registered Alternative Fund Manager until 24 March 2021 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 pages 79 to 81.

Management

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

This report was approved by the Board on 20 March 2023 and signed on its behalf by

Peter Waller

Peter Waller
Chairman

British Smaller Companies VCT2 plc

Registered number 04084003

Directors' Remuneration Report

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

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

Directors' Remuneration Policy

This statement of the Directors' Remuneration Policy took effect following approval by shareholders at the Annual General Meeting held on 16 June 2020. A resolution to approve the Directors' Remuneration Policy will be put to shareholders every three years.

The Board comprises three directors, all of whom are non-executive. The Company currently has an independent Nominations & Remuneration Committee, which is comprised of the full Board and of which Mr P C Waller is the independent Chairman.

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, 97 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 & Remuneration Committee

The directors have reviewed the level of directors' fees and, in light of the current inflationary environment, agreed that with effect from 1 April 2023, they will be increased to £45,000 per annum for the Chairman and £28,000 for the other directors. In accordance with the Directors' Remuneration Policy, the directors have agreed that they should be reviewed again in March 2024. The cap on aggregate annual fees is £110,000.

Directors' Remuneration Report (continued)

Directors' Remuneration for the year ended 31 December 2022 (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 (2021: none).

Table A
Total Fixed Fees Paid (audited)

	2022 £	2021 £
P C Waller	**42,084**	40,000
B L Anderson	**26,083**	24,000
R S McDowell	**26,083**	24,000
	94,250	88,000

With effect from 1 March 2022, the annual salary of the Chairman was increased to £42,500 (previously £40,000) and the annual salary of the other directors was increased to £26,500 (previously £24,000). Prior to that date the annual salaries of the Chairman and the other directors had been unchanged since 1 April 2018.

Table B
Total Fixed Fees Paid: Annual change

Director	2022 %	2021 %	2020 %
P C Waller	**5.2%**	0.0%*	0.0%*
B L Anderson	**8.7%**	0.0%*	0.0%*
R S McDowell	**8.7%**	0.0%*	0.0%*

* The annual salary of Ms B L Anderson from the date of her appointment on 1 October 2020 was £24,000 and the annual salary of Mr R S McDowell from the date of his appointment on 6 March 2019 was £24,000. The annual salary of Mr P C Waller from the date of his appointment as chairman on 7 May 2019 was £40,000.

Directors and their Interests (audited)

The directors of the Company at 31 December 2022 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as shown in Table C:

Table C
Directors and their interests (audited)

	Number of ordinary shares at:		Percentage of voting rights:	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
P C Waller	**54,056**	44,439	**0.03%**	0.03%
B L Anderson	**333,032**	9,112	**0.18%**	0.01%
R S McDowell	**588,650**	266,391	**0.32%**	0.19%

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

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

Relative Importance of Spend on Pay

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

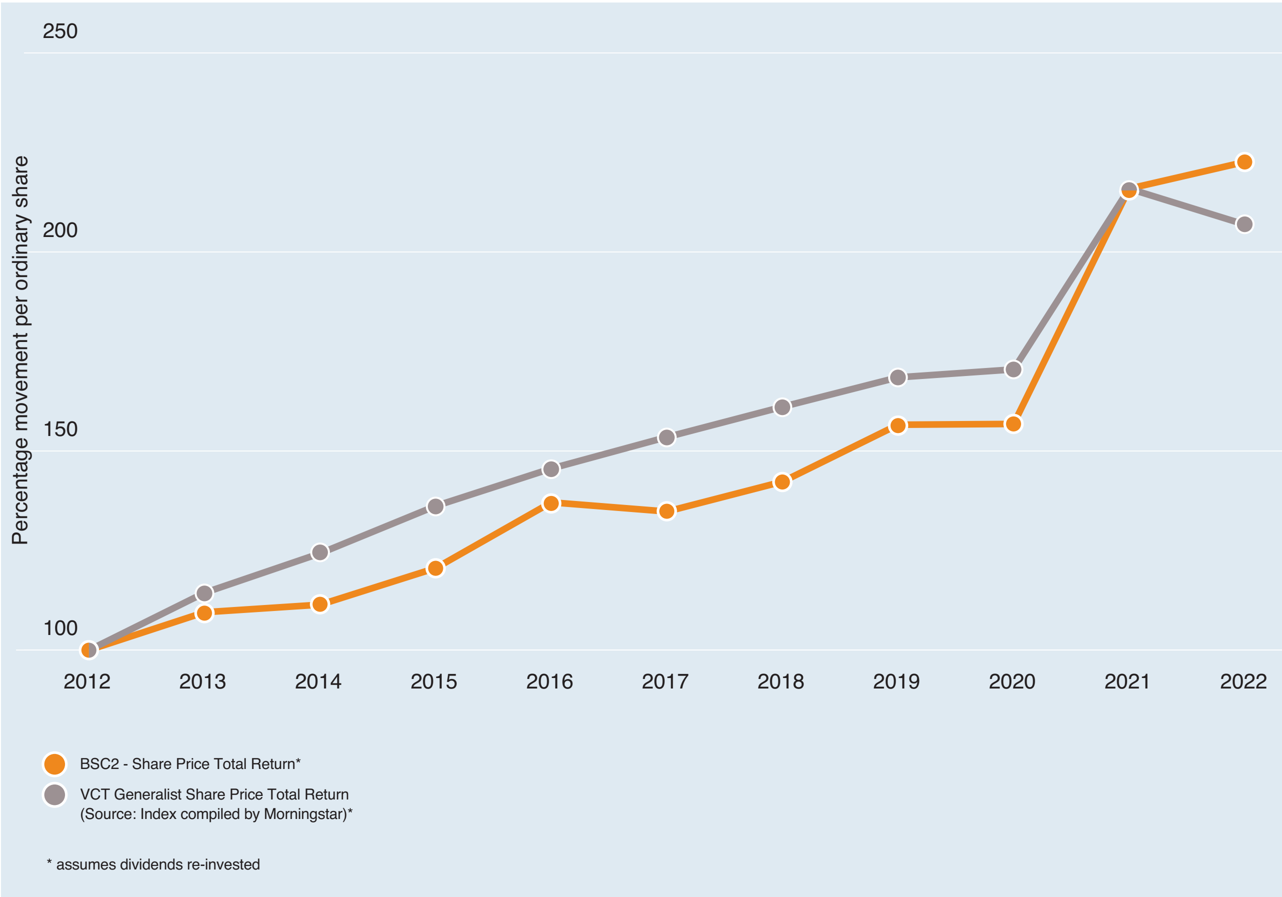
The remuneration of the directors is fixed and contains no performance related variable element. As the Company has no employees, the directors do not consider it relevant to compare directors' fees against employee pay.

Table D
Relative Importance Of Pay

	2022 £	2021 £
Dividends	**5,444,000**	11,015,000
Share buy-backs	**1,572,000**	1,942,000
Total directors fees	**94,250**	88,000

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 investment agreement, as referred to in the Corporate Governance section.

Net asset value Total Return (calculated by reference to the net asset value and cumulative dividends paid, as set out in note 12 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 2012. The directors consider this to be the most appropriate published index on which to report on comparative performance.

This report was approved by the Board and signed on its behalf on 20 March 2023.

Peter Waller

Peter Waller
Chairman

Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with UK-adopted International Financial Reporting Standards (UK-adopted IFRS) 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 UK-adopted International Financial Reporting Standards (UK-adopted IFRS) 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 UK-adopted International Financial Reporting Standards (UK-adopted IFRS) 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 UK-adopted International Financial Reporting Standards (UK-adopted IFRS) 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 20 March 2023.

Peter Waller

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 2022 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 2022 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 & Risk Committee.

Independence

Following the recommendation of the Audit & Risk Committee, we were appointed by the Board of Directors during 2016 and subsequently by the shareholders at the AGM on 10 May 2017 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 7 years, covering the years ended 31 December 2016 to 31 December 2022. 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:

> Obtaining the VCT compliance reports prepared by management's expert during the year and as at year end and reviewing the calculations for the year end report,therein to check that the Company was meeting its requirements to retain VCT status;

> Consideration of the Company's expected future compliance with VCT legislation, the absence of bank debt, contingencies and commitments and any market or reputational risks;

> Reviewing the forecasted cash flows that support the directors' assessment of going concern, challenging assumptions and judgements made in the forecasts, and assessing them for reasonableness. We have stress tested forecasts including consideration of current cash levels, future expenses with reference to historic expenditure and cash ouflows relating to new investments in order to determine whether the Company will continue meeting VCT compliance rules; and

> Evaluating the directors' method of assessing the going concern in light of market volatility.

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

	2022	2021
Key audit matters		
Valuation of unquoted investments	✓	✓
Materiality		
£1,600,000 (2021: £1,400,000) based on 2% (2021: 2%) of total 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.

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 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 also an inherent risk of management override arising from the unquoted investment valuations being prepared by the Investment Manager, who is remunerated based on factors including the net asset value of the Company. For these reasons we considered the valuation of unquoted investments to be a key audit matter.	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. For investments in our sample we: Challenged whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and the applicable accounting standards. We have recalculated the value attributable to the Company, having regard to the application of enterprise value across the capital structures of the investee companies. For investments sampled that were valued using less subjective valuation techniques (cost and price of recent investment reviewed for changes in fair value) we: > Verified the cost or price of recent investment to supporting documentation; > Considered whether the investment was an arm's length transaction through reviewing the parties involved in the transaction and checking whether or not they were already investors of the investee company;

Key audit matter	How the scope of our audit addressed the key audit matter
	> Considered whether there were any indications that the cost or price of recent investment was no longer representative of fair value considering, inter alia, the current performance of the investee company and the milestones and assumptions set out in the investment proposal; and > Considered whether the price of recent investment is supported by alternative valuation techniques. For investments sampled that were valued using more subjective techniques (earnings multiples and revenue multiples) we: > Challenged and corroborated the inputs to the valuation with reference to management information of investee companies, market data and our own understanding and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements; > Reviewed the historical financial statements and any recent management information available to support assumptions about maintainable revenues, earnings or cash flows used in the valuations; > Considered the revenue or earnings multiples applied and the discounts 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 revenue, cash flow or earnings multiple applied in arriving at the valuations adopted by considering the individual performance of investee companies against plan and relative to the peer group, the market and sector in which the investee company operates and other factors as appropriate. 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 consider the investment valuations to be appropriate 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	
	2022 £'000	2021 £'000
Materiality	1,600	1,400
Basis for determining materiality	2% of total investments (2021: 2% of total investments)	
Rationale for the benchmark applied	In setting materiality, we have had regard to the nature and disposition of the investment portfolio. Given that the VCT's portfolio is comprised of unquoted investments which would typically have a wider spread of reasonable alternative possible valuations, we have applied a percentage of 2% of the investment value.	
Performance materiality	1,200	1,000
Basis for determining performance materiality	75% of materiality (2021: 75% of materiality)	
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements based on our knowledge and experience of the audited entity.	

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. As a result, we determined a lower testing threshold for those items impacting revenue return of £206,000 (2021: £190,000) based on 10% of total expenditure excluding the incentive fee (2021: 10% of total expenditure excluding the incentive fee).

Reporting threshold

We agreed with the Audit & Risk Committee that we would report to them all individual audit differences in excess of £80,000 (2021:£70,000). 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	> 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	> 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 & Risk 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	In our opinion, based on the work undertaken in the course of the audit: > the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and > the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements. 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.

Independent Auditor's Report (continued)

Directors' remuneration	In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: > adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or > the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or > certain disclosures of directors' remuneration specified by law are not made; or > we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining an understanding of the Company's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") and updated in 2022 with consequential amendments and the applicable financial reporting framework. We also considered the Company's qualification as a VCT under UK tax legislation.

Our procedures in respect of the above included:

- Agreement of the financial statement disclosures to underlying supporting documentation;

- Enquiries of management and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- Obtaining the VCT compliance reports prepared by management's expert during the year and as at year end and reviewing their calculations for the year end report to check that the Company was meeting its requirements to retain VCT status; and
- Reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations.

Fraud

We assessed the susceptibility of the financial statement to material misstatement including fraud.

Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of the Board and other committee meetings throughout the period for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation of unquoted investments and management override of controls.

Our procedures in respect of the above included:

- The procedures set out in the Key Audit Matters section above;
- Obtaining independent evidence to support the ownership of a sample of investments;
- Recalculating investment management fees and incentive fees in total;
- Obtaining independent confirmation of bank balances; and
- Reviewing journals that relate to the current year end that were posted into the accounting system post year end against supporting documentation, to assess the reasonability of these journals and assess whether those journals are not an indication of management override of controls or an indication of fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

20 March 2023

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 2022

	Notes	2022 Revenue £000	2022 Capital £000	2022 Total £000	2021 Revenue £000	2021 Capital £000	2021 Total £000
Gains on investments held at fair value	7	**-**	**4,287**	**4,287**	-	20,702	20,702
Gain on disposal of investments	7	**-**	**3,586**	**3,586**	-	5,342	5,342
Gain arising from the investment portfolio		**-**	**7,873**	**7,873**	-	26,044	26,044
Income	2	**1,075**	**-**	**1,075**	661	-	661
Total income		**1,075**	**7,873**	**8,948**	661	26,044	26,705
Administrative expenses:							
Manager's fee		**(447)**	**(1,339)**	**(1,786)**	(374)	(1,118)	(1,492)
Incentive fee		**-**	**(635)**	**(635)**	-	(4,407)	(4,407)
Other expenses		**(274)**	**-**	**(274)**	(417)	-	(417)
	3	**(721)**	**(1,974)**	**(2,695)**	(791)	(5,525)	(6,316)
Profit (loss) before taxation		**354**	**5,899**	**6,253**	(130)	20,519	20,389
Taxation	4	**-**	**-**	**-**	-	-	-
Profit (loss) for the year		**354**	**5,899**	**6,253**	(130)	20,519	20,389
Total comprehensive income (expense) for the year		**354**	**5,899**	**6,253**	(130)	20,519	20,389
Basic and diluted earnings (loss) per ordinary share	6	**0.20p**	**3.25p**	**3.45p**	(0.09p)	14.80p	14.71p

The accompanying notes on pages 65 to 89 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 Financial Reporting Standards (UK-adopted IFRS). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in July 2022 – "SORP") published by the AIC.

Balance Sheet

At 31 December 2022

	Notes	2022 £000	2021 £000
ASSETS			
Non-current assets at fair value through profit or loss			
Financial assets at fair value through profit or loss	7	**82,981**	70,019
Accrued income and other assets	8	**948**	493
		83,929	70,512
Current assets			
Accrued income and other assets	8	**287**	217
Current asset investments	9	**1,988**	1,988
Cash and cash equivalents	9	**26,486**	19,201
		28,761	21,406
LIABILITIES			
Current liabilities			
Trade and other payables	10	**(821)**	(4,543)
Net current assets		**27,940**	16,863
Net assets		**111,869**	87,375
Shareholders' equity			
Share capital	11	**20,014**	15,808
Share premium account		**858**	24,122
Capital redemption reserve		**88**	88
Other reserves		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**52,263**	12,818
Investment holding gains and losses reserve	7	**31,762**	28,009
Revenue reserve		**1,357**	1,003
Total shareholders' equity		**111,869**	87,375
Net asset value per ordinary share	12	**61.6p**	61.5p

The accompanying notes on pages 65 to 89 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 20 March 2023.

Peter Waller

Peter Waller
Chairman

Statement of Changes in Equity

For the year ended 31 December 2022

	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 2020	14,133	16,735	5,615	22,461	9,254	2,731	70,929
Revenue loss for the year	-	-	-	-	-	*(130)*	*(130)*
Expenses charged to capital	-	-	-	*(5,525)*	-	-	*(5,525)*
Investment holding gain on investments held at fair value	-	-	-	-	*20,702*	-	*20,702*
Realisation of investments in the year	-	-	-	*5,342*	-	-	*5,342*
Total comprehensive (expense) income for the year	-	-	-	(183)	20,702	(130)	20,389
Issue of share capital	*1,276*	*5,774*	-	-	-	-	*7,050*
Issue of shares – DRIS	*399*	*1,851*	-	-	-	-	*2,250*
*Issue costs **	-	*(238)*	-	*(48)*	-	-	*(286)*
Purchase of own shares	-	-	-	*(1,942)*	-	-	*(1,942)*
Dividends	-	-	-	*(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**
Revenue return for the year	-	-	-	-	-	*354*	*354*
Expenses charged to capital	-	-	-	*(1,974)*	-	-	*(1,974)*
Investment holding gain on investments held at fair value	-	-	-	-	*4,287*	-	*4,287*
Realisation of investments in the year	-	-	-	*3,586*	-	-	*3,586*
Total comprehensive income for the year	-	-	-	1,612	4,287	354	6,253
Issue of share capital	*4,023*	*21,274*	-	-	-	-	*25,297*
Issue of shares – DRIS	*183*	*902*	-	-	-	-	*1,085*
*Issue costs **	-	*(1,125)*	-	-	-	-	*(1,125)*
Share premium cancellation	-	*(44,315)*	-	*44,315*	-	-	-
Purchase of own shares	-	-	-	*(1,572)*	-	-	*(1,572)*
Dividends	-	-	-	*(5,444)*	-	-	*(5,444)*
Total transactions with owners	4,206	(23,264)	-	37,299	-	-	18,241
Realisation of prior year investment holding gains	-	-	-	534	(534)	-	-
Balance at 31 December 2022	**20,014**	**858**	**5,615**	**52,263**	**31,762**	**1,357**	**111,869**

The accompanying notes on pages 65 to 89 are an integral part of these financial statements.

For the year ended 31 December 2022

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	52,263	1,357	53,620
Income not yet distributable	-	(988)	(988)
Cancelled share premium not yet distributable	(27,879)	-	(27,879)
Revaluation losses	(490)	-	(490)
Dividend paid 11 January 2023	(4,097)	-	(4,097)
Reserves available for distribution*	**19,797**	**369**	**20,166**

* 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 £53,620,000, representing an increase of £39,799,000 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 £53,620,000 shown above, £988,000 relates to income not yet distributable and £27,879,000 relates to cancelled share premium which will become distributable from the dates shown in the table below. In addition revaluation losses of £490,000 included within the investment holding gains and losses reserve are not considered to be recoverable.

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 which was subsequently received on 11 March 2022. Total share premium cancelled will be available for distribution from the following dates:

	£000
1 January 2024	**299**
1 January 2025	**7,387**
1 January 2026	**20,193**
Cancelled share premium not yet distributable	**27,879**

Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 £000	2021 £000
Net cash outflow from operating activities		**(5,911)**	(1,419)
Cash flows generated from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(17,978)**	(6,092)
Proceeds from sale of financial assets at fair value through profit or loss	7	**12,929**	11,182
Deferred consideration	7	**4**	471
Net cash (outflow) inflow from investing activities		**(5,045)**	5,561
Cash flows from financing activities			
Issue of ordinary shares		**25,297**	7,050
Costs of ordinary share issues*		**(1,125)**	(286)
Purchase of own ordinary shares		**(1,572)**	(1,942)
Dividends paid	5	**(4,359)**	(8,765)
Net cash inflow (outflow) from financing activities		**18,241**	(3,943)
Net increase in cash and cash equivalents		**7,285**	199
Cash and cash equivalents at the beginning of the year		**19,201**	19,002
Cash and cash equivalents at the end of the year	9	**26,486**	19,201

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

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

	2022 £000	2021 £000
Profit before taxation	**6,253**	20,389
(Decrease) increase in trade and other payables	**(3,722)**	4,412
Increase in accrued income and other assets	**(529)**	(117)
Gain on disposal of investments	**(3,586)**	(5,342)
Gains on investments held at fair value	**(4,287)**	(20,702)
Capitalised income	**(40)**	(59)
Net cash outflow from operating activities	**(5,911)**	(1,419)

The accompanying notes on pages 65 to 89 are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of Preparation

The accounts have been prepared on a going concern basis as set out in the Directors Report on page 38 and in accordance with UK-adopted International Financial Reporting Standards (UK-adopted IFRS).

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

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

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

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

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

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (issued in July 2022 – "SORP") to the extent that they do not conflict with UK-adopted International Financial Reporting Standards (UK-adopted IFRS).

The financial statements are prepared in accordance with UK-adopted International Financial Reporting Standards (UK-adopted IFRS) and interpretations in force at the reporting date. New standards coming into force during the year and future standards that come into effect after the year-end have not had a material impact on these financial statements.

The Company has carried out an assessment of accounting standards, amendments and interpretations that have been issued by the IASB and that are effective for the current reporting period. The Company has determined that the transitional effects of the standards do not have a material impact.

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

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

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

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

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

Notes to the Financial Statements (continued)

1. **Principal Accounting Policies (continued)**

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

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

Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 "Fair Value Measurement" and, using the International Private Equity and Venture Capital Valuation Guidelines ("the IPEV Guidelines") updated in December 2022. Quoted investments are valued at market bid prices. A detailed explanation of the valuation policies of the Company is included below.

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

- **Revenue multiples.** An appropriate multiple, given the risk profile and revenue growth prospects of the underlying company, is applied to the revenue of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- **Earnings multiple.** An appropriate multiple, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.
- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

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

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

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

Listed Investment Funds

Listed investment funds are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. No methodology other than active market bid price has been applied as at 31 December 2022.

Income

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

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for the Manager's fee and incentive fees. Of the Manager's fees 75 per cent are allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains. The incentive fee payable to the Manager (as set out in note 3) is charged wholly through the Capital column.

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

Incentive Fee

The incentive fee is accounted for on an accruals basis. As further detailed in note 3, 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 in note 3), 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, Cash Equivalents and Current Asset Investments

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

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

Notes to the Financial Statements (continued)

1. Principal Accounting Policies (continued)

Cash and cash equivalents include cash at hand, money market funds and bank deposits repayable on up to three months' notice as these meet the definition in IAS 7 'Statement of cash flows' of a short-term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

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

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

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

Share Capital and Reserves

Share Capital

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

Share Premium Account

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

Capital Reserve

The following are included within this reserve:

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

Investment Holding Gains and Losses Reserve

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

Revenue Reserve

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

Taxation

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

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

Dividends Payable

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

Segmental Reporting

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

Critical Accounting Estimates and Judgements

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

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

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

2. Income

	2022 £000	2021 £000
Dividends from unquoted companies	**642**	328
Interest on loans to unquoted companies	**206**	273
Income from unquoted portfolio	**848**	601
Income from listed investment funds	**22**	-
Income from investments held at fair value through profit or loss	**870**	601
Interest on bank deposits	**205**	60
	1,075	661

Notes to the Financial Statements (continued)

3. Administrative Expenses

	2022 £000	2021 £000
Manager's fee	**1,786**	1,492
Administration fee	**75**	70
Total payable to YFM Private Equity Limited	**1,861**	1,562
Incentive fee	**635**	4,407
Other expenses:		
General expenses	**120**	63
Directors' remuneration	**106**	96
Listing and registrar fees	**68**	55
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	**62**	41
Trail commission	**59**	33
Printing	**40**	34
Irrecoverable VAT	**43**	25
	2,994	6,316
Fair value movement related to credit risk	**(299)**	-
	2,695	6,316
Ongoing charges figure	**2.08%**	2.16%

Directors' remuneration comprises only short term benefits including social security contributions of £10,000 (2021: £8,000).

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

No fees are payable to the auditor in respect of other services (2021: £nil, apart from costs of £12,000 for audit-related 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 2021 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 £5 million. The annual fee on all other assets will be 2.0 per cent of net assets per annum. Based on the Company's net assets at 31 December 2022 of £111,869,000, and cash of £28,274,000 at that date this equates to approximately £2,002,000 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 £75,000 for the year ended 31 December 2022 (2021: £70,000).

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 2022, the Company was due a rebate from the Manager of £nil (2021: £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 £1,861,000 (2021: £1,562,000).

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 2022, the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £2,026,000 (2021: £1,235,000).

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

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 for the year ended 31 December 2021 was paid. The Hurdle for the year ending 31 December 2022 was reset at 135.5 pence per ordinary share.

Notes to the Financial Statements (continued)

3. Administrative Expenses (continued)

As at 31 December 2022, the total of cumulative cash dividends paid and mid-market price was 137.25 pence per ordinary share. Consequently the Hurdle was exceeded and a performance related incentive of £635,000 for the year ended 31 December 2022 is payable. The Hurdle for the year ending 31 December 2023 is reset at 137.25 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 22 September 2021, YFM Private Equity Limited was entitled to 3.0 per cent of gross subscriptions, (3.5 per cent for Applications received from Applicants who did not invest their money through a financial intermediary advisor and invested directly into the Company) less commissions payable to an execution-only broker or platform. The net amount paid to YFM Private Equity Limited under this offer amounted to £744,000.

Under the terms of the offer launched with British Smaller Companies VCT plc on 30 November 2022, YFM Private Equity Limited will be entitled to 3.0 per cent of gross subscriptions, (3.5 per cent for Applications received from Applicants who did not invest their money through a financial intermediary advisor and invested directly into the Company) less commissions payable to an execution-only broker or platform.

The 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 2022 (audited)".

4. Taxation

	2022 Revenue £000	2022 Capital £000	2022 Total £000	2021 Revenue £000	2021 Capital £000	2021 Total £000
Profit (loss) before taxation	**354**	**5,899**	**6,253**	(130)	20,519	20,389
Profit (loss) before taxation multiplied by standard rate of corporation tax in UK of 19% (2021: 19%)	**67**	**1,121**	**1,188**	(25)	3,899	3,874
Effect of:						
UK dividends received	**(172)**	**-**	**(172)**	(62)	-	(62)
Non-taxable profits on investments	**-**	**(1,496)**	**(1,496)**	-	(4,948)	(4,948)
Deferred tax not recognised	**105**	**375**	**480**	87	1,049	1,136
Tax charge	**-**	**-**	**-**	-	-	-

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

Deferred tax assets of £3,703,000 (2021: £3,072,000) calculated at 25% (2021: 25%) in respect of unrelieved management expenses (£14.81 million as at 31 December 2022 and £12.29 million as at 31 December 2021) 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:

	2022 Revenue £000	2022 Capital £000	2022 Total £000	2021 Revenue £000	2021 Capital £000	2021 Total £000
Interim dividend for the year ended 31 December 2022 of 1.5p (2021: 1.5p) per ordinary share	**-**	**2,718**	**2,718**	-	1,934	1,934
Second interim dividend for the year ended 31 December 2022 of 1.5p (2021: 1.5p) per ordinary share	**-**	**2,726**	**2,726**	1,559	544	2,103
Third interim dividend for the year ended 31 December 2021 of 5.0p per ordinary share	**-**	**-**	**-**	-	6,978	6,978
	-	**5,444**	**5,444**	1,559	9,456	11,015
Shares allotted under DRIS			**(1,085)**			(2,250)
Dividends paid in Statement of Cash Flows			**4,359**			8,765

The first interim dividend of 1.5 pence per ordinary share was paid on 6 May 2022 to shareholders on the register as at 1 April 2022.

The second interim dividend of 1.5 pence per ordinary share was paid on 3 October 2022 to shareholders on the register as at 2 September 2022.

A special dividend of 2.25 pence per ordinary share in respect of the year ending 31 December 2023, amounting to £4,097,000, was paid on 11 January 2023 to shareholders on the register on 18 November 2022. An interim dividend of 1.5 pence per ordinary share, in respect of the year ending 31 December 2023, will be paid on 26 June 2023 to shareholders on the register on 12 May 2023. These dividends were not recognised in the year ended 31 December 2022 as the obligations 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 £6,253,000 (2021: £20,389,000) and 181,163,554 (2021: 138,592,343) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings (loss) per ordinary share is based on the revenue profit for the year attributable to shareholders of £354,000 (2021: loss of £130,000) and 181,163,554 (2021: 138,592,343) 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 £5,899,000 (2021: £20,519,000) and 181,163,554 (2021: 138,592,343) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 1,826,028 new ordinary shares in respect of its DRIS and 40,224,521 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 2,737,038 of its own shares in the year, and these shares are held in the capital reserve. The total of 18,666,812 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 2022 and 31 December 2021.

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

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

Level 1: quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise fixed income securities classified as held at fair value through profit or loss.

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

Level 3: the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as revenue and earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The majority of the Company's investments fall into this category at 31 December 2022.

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

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

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

Valuation of Investments

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

Movements in investments at fair value through profit or loss during the year to 31 December 2022 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	
	Unquoted Investments £000	Listed Investment Funds £000	Total Investments £000
Opening cost	42,037	-	42,037
Opening investment holding gain*	27,982	-	27,982
Opening fair value at 1 January 2022	**70,019**	**-**	**70,019**
Additions at cost	16,226	1,752	17,978
Capitalised income	40	-	40
Disposal proceeds	(12,929)	-	(12,929)
Net profit on disposal	3,586	-	3,586
Change in fair value	1,451	(156)	1,295
Foreign exchange gain	2,992	-	2,992
Closing fair value at 31 December 2022	**81,385**	**1,596**	**82,981**
Closing cost	49,494	1,752	51,246
Closing investment holding gain*	31,891	(156)	31,735
Closing fair value at 31 December 2022	**81,385**	**1,596**	**82,981**

* 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 2022 a total of £27,000 (2021: £27,000) 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 (2021: £nil).

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in fair value of financial assets held at the price of recent investment, or to adjust revenue and earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's level 3 investments, 75 per cent are held on a revenue multiple basis and 12 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 13 per cent are valued based on cost or price of recent investment, reviewed for change in fair value (7 per cent), net asset value reviewed for change in fair value (3 per cent) and expected sale proceeds (3 per cent).

Notes to the Financial Statements (continued)

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

Revenue Multiple inputs		Application Software	Cloud & DevOps	Data	New Media	Retail & Brands	Tech-enabled Services
2022	**Revenue Multiple Range**	**5.37-5.79**	**2.81-5.79**	**5.37-11.76**	**1.05-5.17**	**1.16-1.40**	**2.10-5.71**
	Revenue Multiple Weighted Average	**5.74**	**4.06**	**10.88**	**2.71**	**1.29**	**5.22**
2021	Revenue Multiple Range	8.40-10.30	4.10	4.10-26.90	1.89-8.70	1.27	8.70-10.30
	Revenue Multiple Weighted Average	8.66	4.10	22.27	6.99	1.27	9.20
2022	**Combined RM and/or Marketability Discount Range**	**44%-76%**	**36%-40%**	**0%-56%**	**20%-40%**	**24%-60%**	**40%-68%**
	Combined RM and/or Marketability Discount Weighted Average	**50%**	**38%**	**8%**	**28%**	**43%**	**47%**
2021	Combined RM and/or Marketability Discount Range	52%-76%	52%	19%-72%	60%-68%	44%	60%-72%
	Combined RM and/or Marketability Discount Weighted Average	61%	52%	26%	64%	44%	68%

Earnings Multiple inputs		Advanced Manufacturing	Business Services	Retail & Brands	Tech-enabled Services
2022	**Earnings Multiple Range**	**n/a**	**8.76-8.89**	**n/a**	**12.12**
	Earnings Multiple Weighted Average	**n/a**	**8.83**	**n/a**	**12.12**
2021	Earnings Multiple Range	11.73	6.90-15.15	15.00	10.76-13.66
	Earnings Multiple Weighted Average	11.73	12.68	15.00	12.41
2022	**Combined EM and Marketability Discount Range**	**n/a**	**36%-48%**	**n/a**	**56%**
	Combined EM and Marketability Discount Weighted Average	**n/a**	**39%**	**n/a**	**56%**
2021	Combined EM and Marketability Discount Range	60%	20%-64%	24%	40%-60%
	Combined EM and Marketability Discount Weighted Average	60%	49%	24%	51%

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 £3.4 million or 4.2 per cent lower. Using the upside alternative the value would be increased by £3.6 million or 4.4 per cent.

Movements in investments at fair value through profit or loss during the previous 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 disposals 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 in respect of assets which have been disposed of in prior periods and were not included in the portfolio at 1 January 2021.

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 2022 £000	Profit (loss) on disposal £000
Unquoted investments:				
Springboard Research Holdings Limited	5,782	1,881	3,959	1,823
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	4,080	1,956	3,163	917
Vuealta Group Limited*	3,067	1,970	2,061	1,006
Arraco Global Markets Limited*	-	1,780	160	(160)
Seven Technologies Holdings Limited	-	1,222	-	-
Total proceeds received**	**12,929**	**8,809**	**9,343**	**3,586**

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

** The total from disposals in the year in the table above is £12,929,000 whereas that shown in the Statement of Cash Flows is £12,933,000. The difference comprises proceeds of £4,000 which were received relating to a prior year disposal.

The following disposals took place in the year to 31 December 2021:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2021 £000	Profit (loss) on disposal £000
Unquoted investments:				
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
Deferred proceeds:				
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 previous year end.

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 tables below.

At 31 December 2022 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	Application Software	304,457	16%	37%
AutomatePro Limited	Cloud & DevOps	42,565	8%	25%
Biz2Mobile Limited	Application Software	3,861,591	10%	26%
Displayplan Holdings Limited	Business Services	1,260	12%	34%
EL Support Services Limited**	Investment Company	3,500	50%	100%
Elucidat Ltd	Application Software	3,025	10%	25%
Force24 Ltd	Application Software	23,786	13%	40%
Immunobiology Limited**	Lifesciences	62,485,280	27%	27%
KeTech Enterprises Limited	Tech-enabled Services	128,333	16%	47%
Macro Art Holdings Limited	Business Services	100,000	12%	30%
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	3,962,520	12%	35%
Panintelligence (via Paninsight Limited)	Data	22,712	10%	35%
SH Healthcare Services Limited**	Investment Company	3,500	50%	100%
SharpCloud Software Limited	Data	26,340	13%	40%
Sipsynergy (via Hosted Network Services Limited)**	Cloud & DevOps	6,093,201	20%	62%
SP Manufacturing Services Limited**	Investment Company	3,500	50%	100%
Tonkotsu Limited	Retail & Brands	33,662	12%	38%
Traveltek Group Holdings Limited	Application Software	36,190	15%	47%
Unbiased EC1 Limited	Tech-enabled Services	1,031,782	12%	35%
Vuealta Holdings Limited	Tech-enabled Services	60,583	18%	51%

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*
Vypr Validation Technologies Limited	Tech-enabled Services	13,236	13%	32%
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 2022 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
AutomatePro Limited	1,483	2,225	1,292	5,000
Biorelate Limited	1,040	1,560	-	2,600
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	2,640	3,961	-	6,601
Force24 Ltd	2,100	3,150	1,050	6,300
Frescobol Carioca Ltd	1,200	1,800	-	3,000
Intamac Systems Limited	905	302	-	1,207
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	1,997	6,184
OC Engineering Services Limited	500	500	-	1,000
Outpost VFX Limited	3,000	4,500	1,500	9,000
Panintelligence (via Paninsight Limited)	1,000	1,500	1,000	3,500
Plandek Limited	1,380	2,070	-	3,450

	British Smaller Companies VCT2 plc £000	British Smaller Companies VCT plc £000	Other commonly managed funds £000	Total £000
Quality Clouds Limited	1,000	1,500	1,000	3,500
Relative Insight Limited	2,000	3,000	-	5,000
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
Sipsynergy (via Hosted Network Services Ltd)	2,045	2,654	1,551	6,250
Summize Limited	1,200	1,800	-	3,000
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	3,731	5,596	1,223	10,550
Vuealta Holdings Limited	61	91	18	170
Vypr Validation Technologies Limited	2,200	3,300	-	5,500
Wakefield Acoustics (via Malvar Engineering Limited)	720	1,080	-	1,800
Wooshii Limited	3,096	4,644	801	8,541

Significant Holdings

	Profit (loss) before taxation £million	Net assets (liabilities) £million
EL Support Services Limited	0.10	0.22
NB Technology Services Limited	0.01	(0.13)
Ncam Technologies Limited	(1.94)	0.02
OC Engineering Services Limited	0.03	0.03
SH Healthcare Services Limited	(0.30)	(0.31)
Sipsynergy (via Hosted Network Services Ltd)	(0.62)	0.58
SP Manufacturing Services Limited	0.67	(0.98)
Vuealta Holdings Limited	n/a	n/a

Information on ACC Aviation Group Limited is given on page 30.

Notes to the Financial Statements (continued)

8. Accrued income and other assets

	2022 £000	2021 £000
Non-current assets:		
Accrued income on financial assets	**948**	493
Current assets:		
Accrued income on financial assets	**143**	107
Accrued income on cash, cash equivalents and cash deposits	**42**	3
Prepayments and other debtors	**102**	107
	287	217

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

	2022 £000	2021 £000
Cash at bank	**26,486**	19,201
Cash and Cash Equivalents	**26,486**	19,201

At 31 December 2022 a further £1.99 million (2021: £1.99 million) was also held in fixed term deposit accounts which were due to mature in April 2023 (2021: 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

	2022 £000	2021 £000
Amounts payable within one year:		
Incentive fee	**635**	4,407
Accrued expenses	**186**	136
	821	4,543

An amount of £635,000 has been accrued within trade and other payables in relation to the performance incentive fee for the year ended 31 December 2022 (2021:£4,407,000 for the year ended 31 December 2021), as further explained in note 3.

11. Called-up Share Capital

	2022 Allotted, called-up and fully paid £000	2021 Allotted, called-up and fully paid £000
Ordinary shares of 10 pence Issued 200,135,522 (2021: 158,084,973) including 18,666,812 shares held in treasury (2021: 15,929,774)	**20,014**	15,808

The movement in the year was as follows:

		Price pence	Date	Number of shares	Share Capital £000
Total as at 1 January 2022				158,084,973	15,808
Issue of shares	Fundraising	61.74-66.16	7 Jan 2022	40,224,521	4,023
Issue of shares	DRIS	60.0	6 May 2022	903,714	91
Issue of shares	DRIS	58.8	3 Oct 2022	922,314	92
As at 31 December 2022 (including treasury shares)				**200,135,522**	**20,014**
As at 31 December 2022 (excluding treasury shares)				**181,468,710**	

The movement in the previous year to 31 December 2021 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**	

During the year the Company purchased 2,737,038 (2021: 3,553,337) 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 2022 and 31 December 2021.

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 £111,869,000 (2021: £87,375,000) and 181,468,710 (2021: 142,155,199) 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 2022.

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 2022 and 31 December 2021.

13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 81.0 pence per ordinary share (2021: 78.0 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 2022 or 31 December 2021.

15. Events after the Balance Sheet Date

Having previously assessed its expected cash requirements, the Company announced a new share offer on 30 November 2022, alongside British Smaller Companies VCT plc, with the intention of raising up to £75 million, in aggregate which included an over-allotment facility of £25 million, in aggregate. Gross Applications exceeding £62.5 million have been received as at the date of this report, of which £23.5 million relate to the Company. The related allotment will take place in early April 2023.

Since year-end, the Company has invested £2.4 million into DrDoctor, a patient engagement and communications software platform. The Company also realised its investment in Wakefield Acoustics at the value recognised at 31 December 2022 (£0.6 million).

16. Contingent liability

As set out in note 3 on pages 71 and 72, the Manager and Chord Capital are entitled to a performance-related incentive fee if the cumulative dividends per ordinary share paid as at the last business day of December in any year, plus the average of the middle market price per ordinary share of the five dealing days prior to that day, exceeds a Hurdle, which is set at 137.25 pence per ordinary share for the year ending 31 December 2023. The value of the incentive fee is 20 per cent of the excess to the Hurdle, multiplied by the number of ordinary shares issued. Excluding the payment of dividends, the reported net assets per ordinary share have increased by 2.8 pence per ordinary share since 31 December 2022. If this increase were to flow through to an increase in the middle market price per ordinary share in the last five dealing days of December 2023, at a discount of 5 per cent to the net asset value per ordinary share, then an incentive fee of approximately £872,000 would be payable at 31 December 2023 based on the number of shares in issue at 20 March 2023.

17. 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

	2022 Other assets £000	2022 Assets at fair value through profit or loss £000	2021 Other assets £000	2021 Assets at fair value through profit or loss £000
Non-current assets at fair value through profit or loss				
Financial assets	**-**	**82,981**	-	70,019
Accrued income on financial assets	**-**	**948**	-	493
Current assets				
Cash and cash equivalents	**26,486**	**-**	19,201	-
Cash on fixed term deposit	**1,988**	**-**	1,988	-
Accrued income on financial assets	**-**	**143**	-	107
Accrued income on cash, cash equivalents and cash deposits	**42**	**-**	3	-
	28,516	**84,072**	21,192	70,619
Other assets – not financial instruments	**102**	**-**	107	-
	28,618	**84,072**	21,299	70,619

Liabilities as per balance sheet

	2022 Other financial liabilities £000	2021 Other financial liabilities £000
Trade and other payables	**(186)**	(136)
Performance incentive fee	**(635)**	(4,407)
	(821)	(4,543)

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)

17. Financial Instruments (continued)

17a Market Risk

Market Price Risk

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

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

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

Of the Company's financial assets through profit or loss, 2 per cent (2021: nil) are investment funds listed on the main market of the London Stock Exchange (including FCA authorised and regulated UCITS funds). A 5 per cent increase in stock prices as at 31 December 2022 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £80,000 (2021: £nil). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Of the Company's financial assets through profit or loss, 98 per cent are in unquoted companies held at fair value (2021: 100 per cent). The valuation methodology for these investments includes the application of externally produced revenue and earnings multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Investments have been valued in line with the Guidelines described within note 1. Those using revenue and earnings multiple methodologies include judgements regarding the level of discount applied to that multiple. The effect of changing the level of discounts applied to the multiples is considered in note 7 on page 77.

The largest single concentration of risk relates to the Company's investment in Matillion Limited which constitutes 19.6 per cent (2021: 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 both those whose value has been reduced to nil and those managed on a discretionary basis by Brewin Dolphin Securities Limited) is 2.1 per cent (2021: 2.7 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.

	Date of Disposal	Sale proceeds to date £000	Valuation one year earlier £000	Increase (decrease) £000
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

	Date of Disposal	Sale proceeds to date £000	Valuation one year earlier £000	Increase (decrease) £000
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
Arraco Global Markets Limited	Sep-22	-	924	(924)
Intelligent Office UK (via IO Outsourcing Limited)	Sep-22	4,080	3,069	1,011
Springboard Research Holdings Limited	Sep-22	5,782	4,124	1,658
Seven Technologies Holdings Limited	Dec-22	-	-	-
Vuealta Group Limited (partial realisation)	Dec-22	3,067	1,969	1,098
		43,267	**30,361**	**12,906**

Interest Rate Risk

The Company's venture capital investments include £2,992,000 (2021: £3,755,000) of loan stock in unquoted companies. The majority of this loan stock at 31 December 2022 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 (2021: £611,000) of its loan stock portfolio.

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

Notes to the Financial Statements (continued)

17. Financial Instruments (continued)

	2022 £000	2022 Weighted average interest rate %	2022 Weighted average time for which rate is fixed Months	2021 £000	2021 Weighted average interest rate %	2021 Weighted average time for which rate is fixed Months
Fixed rate loan stock and preference shares	**6,263**	**8.0**	**50**	8,002	7.6	15
Cash on fixed term deposit	**1,988**	**2.6**	**3**	1,988	1.0	3
Combined	**8,251**	**6.7**	**39**	9,990	6.3	12

Exchange Rate Risk

Of the Company's financial assets measured at fair value through profit or loss, 26 per cent (2021: 35 per cent) are denominated in US dollars. A 5 per cent increase in the £:$ exchange rate at 31 December 2022 would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by £1,042,000 (2021: £1,193,000). 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 £1,151,000 (2021: £1,318,000).

17b 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 £44,985,000 (2021: £36,218,000) 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:

	2022 £000 <1 year	2022 £000 1-2 years	2022 £000 2-5 years	2021 £000 <1 year	2021 £000 1-2 years	2021 £000 2-5 years
Unquoted loan investments	**1,615**	**-**	**1,377**	2,053	591	1,111

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.

	2022 £000 < 1 year	2021 £000 < 1 year
Loans to investee companies past due	**1,383**	400

17c 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 23.7 per cent (2021: 22.0 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.

18. 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 2022 was £111,869,000 (2021: £87,375,000).

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.

19. 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 2022 (2021: £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 8-10 Hill Street, London W1J 5NG on 15 June 2023 at 2:30 pm 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 2022 be received.

(2) That the Directors' Remuneration Report for the year ended 31 December 2022 be approved other than the part of such report containing the Directors' Remuneration Policy.

(3) That the Director's Remuneration Policy contained in the Director's Remuneration report for the year ended 31 December 2022 be approved.

(4) That Mr P C Waller be re-elected as a director.

(5) That Ms B L Anderson be re-elected as a director.

(6) That Mr R S McDowell be re-elected as a director.

(7) That BDO LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix the auditor's remuneration.

(8) That the directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £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 Resolution

(9) That the directors be and are hereby empowered in accordance with Section 570(1) of the Act during the period commencing on the passing of this Resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of this Resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in Resolution 8 above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with the allotment for cash of equity securities up to an aggregate nominal amount of £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 sentence of this Resolution the words "pursuant to the general authority conferred upon the directors in Resolution 8 above" were omitted.

By order of the Board

The City Partnership (UK) Limited
Company Secretary

20 March 2023

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 The City Partnership (UK) Limited, The Mending Rooms, Park Valley Mills, Meltham Road, Huddersfield, HD4 7BH 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 2.30 pm on 13 June 2023 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:

The City Partnership (UK) Limited
The Mending Rooms
Park Valley Mills
Meltham Road
Huddersfield
HD4 7BH;

ii) electronically through the website of the Company's UK registrar at www.proxy-bsc2-agm.cpip.io; 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 The City Partnership (UK) Limited, The Mending Rooms, Park Valley Mills, Meltham Road, Huddersfield, HD4 7BH. 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 The City Partnership 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.

Notice of the Annual General Meeting (continued)

(h) Copies of the directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company, and a copy of the current articles of association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (weekends and public holidays excluded) from the date of this Notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.

(i) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at close of business on 13 June 2023 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 13 June 2023 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(j) As at 20 March 2023 the Company's issued share capital comprised 182,896,128 ordinary shares of 10 pence each with a further 18,666,812 shares held in treasury. Those treasury shares represented 9.3 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share carries one voting right at the Annual General Meeting of the Company and so the total number of voting rights in the Company as at 20 March 2023 was 182,896,128. 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 (8RA57) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

Advisers to the Company

Manager

YFM Private Equity Limited
5th Floor, Valiant Building
14 South Parade
Leeds
LS1 5QS

Registrars

The City Partnership (UK) Limited
The Mending Rooms
Park Valley Mills
Meltham Road
Huddersfield
HD4 7BH

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
18 Soho Square
London
W1D 3QL

Financial Adviser

Brewin Dolphin Limited
34 Lisbon Street
Leeds
LS1 4LX

Independent Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

VCT Status Adviser

Philip Hare & Associates LLP
6 Snow Hill
London
EC1A 2AY

Bankers

Santander UK plc
44 Merrion Street
Leeds
LS2 8JQ

Company Secretary

The City Partnership (UK) Limited
The Mending Rooms
Park Valley Mills
Meltham Road
Huddersfield
HD4 7BH

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
14 South Parade
Leeds LS1 5QS

Telephone 0113 244 1000
Email info@yfmep.com

bscfunds.com

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