

British Smaller Companies VCT2 plc

Annual Financial Report Announcement

for the year ended 31 December 2019

British Smaller Companies VCT2 plc (the “Company”) today announces its audited results for the year ended 31 December 2019.

HIGHLIGHTS

- Total Return increased by 3.3 pence to 121.7 pence per ordinary share, an increase of 5.5 per cent over opening net asset value.
- The underlying growth in the investment portfolio was £5.2 million, an increase of 13.6 per cent.
- Successful prospectus offer raising £12.7 million. Shares were allotted in April 2019.
- Seven new investments and five follow-on investments totalling £11.4 million were completed during the year.
- Realisations of investments and loan repayments generated total proceeds of £7.1 million in the year, a gain of £2.9 million over the opening carrying value and £2.8 million over cost.
- Net asset value at 31 December 2019 of 55.2 pence per ordinary share (2018: 59.9 pence per ordinary share).
- Total dividends paid during the year ended 31 December 2019 of 8.0 pence per ordinary share (2018: 3.0 pence per ordinary share).
- There is no proposed final dividend in respect of the year ended 31 December 2019, but the Board is declaring a first interim dividend of 2.0 pence per ordinary share in respect of the year ending 31 December 2020.
- Total cumulative dividends paid since inception of 66.5 pence per ordinary share at 31 December 2019 (2018: 58.5 pence per ordinary share).
- On 10 March 2020 the Company realised its investment in Business Collaborator Limited for £5.1 million, compared to a valuation of £3.5 million at 31 December 2019, which is a strong uplift on the original cost of the holding of £1.3 million. The process began in earnest in January 2020 and the buyer was able to transact quickly, leading to completion in March.

CHAIRMAN'S STATEMENT

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

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

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

Realisations in the Year

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

New Investments

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

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

Financial Results

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

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

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

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

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

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

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

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

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

The unquoted portfolio as at 31 December 2019 comprised £23.22 million (48 per cent of the total value) of investments made since the VCT rule changes in 2015. As previously reported these investments are generally in younger cash consumptive businesses, where the return will derive almost entirely from capital rather than income. As a consequence, this increased level of new investments, coupled with exits from AIM and older investments, has seen the Company’s income fall to £1.08 million, compared to £1.68 million in the previous financial year. Income is likely to reduce further as the proportion of new investments continues to grow and more of the investment return is derived from capital.

Dividends

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

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

Dividend Re-investment Scheme (“DRIS”)

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

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

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

Fundraising

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

Shareholder Relations

The electronic communications policy continues to be a great success, with 84 per cent of shareholders now receiving communications in this way. Documents such as the annual report are published on the website www.bscfunds.com rather than by post, saving on printing costs, as well as being more environmentally friendly.

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

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

Board Composition

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

Regulatory Developments

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

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

Post Balance Sheet Events

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

Outlook

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

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

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

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

Peter Waller
Chairman

OBJECTIVES AND KEY POLICIES

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

Investment Policy

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

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

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

Borrowing

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

Co-investment

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

Asset Mix

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

Remuneration Policy

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

Other Key Policies

Details of the Company's policies on the payment of dividends, the DRIS and the buy-back of shares are given on page 1 of the annual report. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 37 of the annual report.

PROCESSES AND OPERATIONS

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

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

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

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

Performance Incentive

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

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

KEY PERFORMANCE INDICATORS

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

Total Return

The chart on page 12 of the annual report shows how the **Total Return** of your Company has developed over the last ten years.

The evaluation of comparative success of the Company's **Total Return** is by way of reference to the **Share Price Total Return** for approximately 46 generalist VCTs as published by the Association of Investment Companies ("the AIC"). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 51 of the annual report.

Total Return with DRIS

The chart on page 12 of the annual report 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

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

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

Notes

¹ Total Return to date is cumulative dividends paid plus the 31 December 2019 net asset value in pence per ordinary share.

² The offer price for the relevant year excluding the benefit of income tax relief available to investors at the time of the offer.

³ IRR is the unaudited annual rate of return that equates the offer price at the date of the original investment, with the value of subsequent dividends plus the 31 December 2019 net asset value per ordinary share. This excludes the benefit of any initial tax relief.

Expenses

Ongoing Charges

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

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

Expenses Cap

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

Compliance with VCT Legislative Tests

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

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

Income Test

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

Retained Income Test

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

Qualifying Holdings Test

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

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

Eligible Shares Test

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

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

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

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

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

Maximum Single Investment Test

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

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

Further restrictions placed on VCTs are:

Dividends from cancelled share premium

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

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

Other

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

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

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

INVESTMENT PERFORMANCE

Portfolio Structure

The charts on page 15 of the annual report illustrate the broad range of the investment portfolio with 42 per cent of the portfolio valuation being held for more than five years, whilst 74 per cent is held at cost or above.

Portfolio Diversity

Also included in the charts on page 16 of the annual report is a profile of the investment portfolio by investments made before and after the VCT rule changes in 2015, and the breakdown by industry sector. 37 per cent of the portfolio's valuation is held in loans and preference shares although loans now account for only 9 per cent of the value.

INVESTMENT REVIEW

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

Your Residual Portfolio

£47.9 million	Fair value of the portfolio	(2018: £38.1 million)
23	Number of portfolio companies with value of more than £0.5 million	(2018: 19)
£1.1 million	Income from the portfolio	(2018: £1.7 million)
£11.4 million	Level of investment	(2018: £5.6 million)
£5.2 million	Return from portfolio	(2018: £4.5 million)

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

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

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

Other Significant Investment Movements

Investments

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

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

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

Disposal of Investments

During the year to 31 December 2019 the Company received proceeds from disposals, repayments of loans/preference shares and deferred consideration of £7.08 million. This included the very successful partial realisation of Eikon which produced capital proceeds of £4.21 million against realised cost of £1.50 million, delivering a realised gain of £2.71 million of which £2.63 million was recognised in the year. The investment in Eikon was held at a valuation of £2.01 million at the beginning of the financial year and £2.34 million in June 2019 prior to the offer for your Company's investment. This was increased at September 2019 to £4.33 million once exclusivity was achieved. Total proceeds received plus the residual loan notes total £4.99 million.

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

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

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

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

Portfolio Composition

As at 31 December 2019 the portfolio had a value of £47.91 million comprising wholly of unquoted investments, with the quoted portfolio having been realised in full during the year. An analysis of the movements in the year is shown in note 7 below.

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

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

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1, which takes account of current industry guidelines for the valuation of venture capital portfolios. The December 2018 update to the IPEVC Guidelines discourages the use of cost or price of a recent investment as a primary basis for valuation. As a result our policy is to use the recent round basis for the first quarter date immediately following the round, but then switch to a new primary basis for all subsequent periods. This change has in fact had little impact on the portfolio's valuation as we have calibrated the valuation basis used to the recent investment round. We would only expect significant adjustments to recent investment values where an investment is significantly under- or over-performing. As at 31 December 2019 the value of investments falling into each valuation category is shown in Table D.

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

Table D Valuation Policy	2019		2018
	Valuation £million	% of portfolio by value	% of portfolio by value
Sales multiple	20.51	43	29
Earnings multiple	20.07	42	52
Cost or price of recent investment, reviewed for change in fair value	5.07	10	10
Net assets, reviewed for change in fair value	2.26	5	6
Quoted investments at bid price	-	-	3
Total	47.91	100	100

Regulatory Changes

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

Impact

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

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

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

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

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

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

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

Summary and Outlook

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

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

David Hall

YFM Private Equity Limited

PORTFOLIO SUMMARY AT 31 DECEMBER 2019

Name of company	Date of initial investment	Location	Industry Sector	Current cost	Valuation at 31 December 2019	Proceeds to date	Realised & unrealised value to date*
				£000	£000	£000	£000
Unquoted portfolio							
ACC Aviation Group Limited	Nov-14	Reigate	Business Services	145	6,606	1,233	7,839
Matillion Limited	Nov-16	Manchester	Software, IT & Telecommunications	1,778	6,491	-	6,491
Business Collaborator Limited	Nov-14	Reading	Software, IT & Telecommunications	1,340	3,458	-	3,458
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,205	-	3,205
KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecommunications	1,500	2,486	500	2,986
Investment companies	Apr-15	-	-	2,500	2,264	-	2,264
Unbiased EC1 Limited	Dec-19	London	Business Services	1,964	1,964	-	1,964
Springboard Research Holdings Limited	Oct-14	Milton Keynes	Business Services	1,883	1,747	-	1,747
Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,728	-	1,728
Deep-Secure Ltd	Dec-09	Malvern	Software, IT & Telecommunications	500	1,558	-	1,558
Elucidat Ltd	May-19	Brighton	Business Services	1,400	1,524	-	1,524
SharpCloud Software Limited	Oct-19	London	Software, IT & Telecommunications	1,460	1,460	-	1,460
Wooshii Limited	May-19	London	Business Services	1,440	1,459	-	1,459
Arcus Global Limited	May-18	Cambridge	Software, IT & Telecommunications	1,950	1,249	-	1,249
Ncam Technologies Limited	Mar-18	London	Software, IT & Telecommunications	1,341	1,196	-	1,196
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Software, IT & Telecommunications	1,309	1,134	-	1,134
Friska Limited	Jul-17	Bristol	Retail & Brands	1,200	1,082	-	1,082
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software, IT & Telecommunications	1,163	1,068	-	1,068
Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Software, IT & Telecommunications	1,000	1,000	-	1,000
DisplayPlan Holdings Limited	Jan-12	Baldock	Business Services	70	800	820	1,620
Biz2Mobile Limited	Oct-16	Oxfordshire	Software, IT & Telecommunications	1,105	774	-	774
Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Industrial	720	648	41	689
RMS Group Holdings Limited	Jul-07	Hull	Manufacturing & Industrial	70	611	349	960
Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	594	-	594
Eikon Holdco Limited	Mar-18	London	Software, IT & Telecommunications	500	500	4,209	4,709
Other investments below £0.5 million				6,909	1,307	1,350	2,657
Total unquoted investments				37,995	47,913	8,502	56,415
Full disposals to date				33,359	-	45,434	45,434
Total investment portfolio				71,354	47,913	53,936	101,849

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

SUMMARY OF INVESTMENT PORTFOLIO MOVEMENT SINCE 31 DECEMBER 2018

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

RISK FACTORS

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

The Board seeks to mitigate its emerging and principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in section 4: "Audit, Risk & 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 of the annual report and further information on exposure to risks including those associated with financial instruments is given in note 16a of the financial statements.

Loss of Approval as a VCT

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

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

Economic

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

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

Investment and Strategic

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

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

Regulatory

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

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

Reputational

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

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

Operational

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

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

Financial

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

Mitigation - The key controls around financial reporting are described on pages 47 and 48 of the annual report.

Market/Liquidity

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

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

OTHER MATTERS

Section 172 statement

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

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

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

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

Key stakeholders

Investors

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

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

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

Investment Adviser

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

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

Portfolio Companies

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

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

Employees

The Company has no employees. Following the appointment of Mr R S McDowell as a non-executive director on 6 March 2019 the Board was composed of four male non-executive directors, though this reduced to the previous level of three following the retirement of Mr R Last at the 2019 Annual General Meeting. For a review of the policies used when appointing directors to the Board of the Company please refer to the Directors' Remuneration Report on page 49 of the annual report.

Environment and Community

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the Investment Adviser, YFM Private Equity Limited who recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies to reduce any damage that might be caused by its activities. Initiatives of the Investment Adviser designed to minimise its and the Company's impact on the environment include recycling and reducing energy consumption.

More details of the work that the Investment Adviser has done in this area are set out above and at www.yfmep.com/who-we-are/our_impact/.

Business Conduct

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

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

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

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

Website Publication

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

Directors' Responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

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

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

The names and functions of all the directors are stated in note 13 and further biographical details are given on page 38 of the annual report.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

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

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

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

BALANCE SHEET

At 31 December 2019

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

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

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 20 March 2020.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

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

Reserves available for distribution

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

	Capital reserve	Revenue reserve	Total equity
	£000	£000	£000
Distributable reserves as shown on previous page	25,223	1,070	26,293
<i>Less : income not yet distributable</i>	-	(881)	(881)
<i>: cancelled share premium not yet distributable</i>	(7,242)	-	(7,242)
Reserves available for distribution***	17,981	189	18,170

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

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

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

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

The capital reserve and revenue reserve are both distributable reserves. The reserves total £26,293,000 representing an decrease of £9,142,000 during the year. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £26,293,000 shown above, £881,000 relates to income not yet distributable and £7,242,000 to cancelled share premium which becomes distributable from 1 January 2020 onwards (see below).

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

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 "Fair Value Measurement" and, using the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") updated in December 2018. Quoted investments are valued at market bid prices. A detailed explanation of the valuation policies of the Company is included below.

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

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

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

One of the valuation methods described above is used to derive the gross attributable enterprise value of the company. This value is then apportioned appropriately to reflect the respective debt and equity instruments in the event of a sale at that level at the reporting date.

Quoted Investments

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

Income

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

Expenses

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

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

Cash and Cash Equivalents

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

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

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

Share Capital and Reserves

Share Capital

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

Share Premium Account

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

Capital Redemption Reserve

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

Capital Reserve

The following are included within this reserve:

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

Investment Holding Gains and Losses Reserve

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

Revenue Reserve

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

Taxation

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

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

Dividends Payable

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

Segmental Reporting

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

Critical Accounting Estimates and Judgements

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

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

2. Income

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

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

3. Administrative Expenses

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

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

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

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

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

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

The key features of the agreement are:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Taxation

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

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

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

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

5. Dividends

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

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

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

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

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

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

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

6. Basic and Diluted Earnings per Ordinary Share

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

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

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

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

The Company has also repurchased 3,150,531 of its own shares in the year, and these shares are held in the capital reserve. The total of 9,309,092 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

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

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

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

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

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

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

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

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

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

Valuation of Investments

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

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

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

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

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

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2018: £nil).

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

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

8. Basic and Diluted Net Asset Value per Ordinary Share

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

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

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

9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 66.5 pence per ordinary share (2018: 58.5 pence per ordinary share) plus the net asset value as calculated per note 8.

10. Financial Commitments

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

11. Events after the Balance Sheet Date

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

12. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2019 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at www.morningstar.co.uk/uk/NSM. They can also shortly be viewed on the Company's website at www.bscfunds.com. Hard copies of the statutory accounts for the year to 31 December 2019 will be distributed by post or electronically to shareholders and will thereafter be available to members of the public from the Company's registered office.

13. Directors

The directors of the Company are: Mr P C Waller, Mr R M Pettigrew and Mr R S McDowell.

14. Annual General Meeting

The Annual General Meeting of the Company will be held at 12.00 noon on 16 June 2020 at 33 St James Square, London, SW1Y 4JS.

15. Interim dividend for the year ending 31 December 2020

The directors are pleased to announce the payment of an interim dividend for the year ending 31 December 2020 of 2.0 pence per ordinary share ("Interim Dividend").

The Interim Dividend will be paid on 12 May 2020 to those shareholders on the Company's register at the close of business on 14 April 2020. The ex-dividend date will be 9 April 2020.

The directors are not proposing a final dividend for the year ended 31 December 2019.

16. Dividend Re-investment Scheme

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Interim Dividend is the close of business on 28 April 2020.

17. Inside Information

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

For further information, please contact:

David Hall	YFM Equity Partners Limited	Tel: 0113 244 1000
Alex Collins	Panmure Gordon (UK) Limited	Tel: 0207 886 2767