British Smaller Companies VCT2 plc

Annual Financial Report Announcement

for the year ended 31 December 2022

British Smaller Companies VCT2 plc (the "Company") today announces its audited results for the year ended 31 December 2022.

HIGHLIGHTS

- 5.0 per cent return on opening net assets, driven by positive realisations and strong underlying revenue growth in portfolio companies.
- Total Return increased by 3.1 pence to 142.6 pence per share.
- Net asset value at 31 December 2022 of 61.6 pence per share (2021: 61.5 pence per share).
- Realisations generated total proceeds of £12.9 million in the year, a gain of £3.6 million over the opening carrying value and £4.1 million over cost.
- Six new investments and nine follow-on investments totalling £16.3 million completed during the year. One new investment of £2.4 million made subsequent to the year end.
- Total dividends paid during the year ended 31 December 2022 of 3.0 pence per share (2021: 8.0 pence per share), bringing total cumulative dividends paid since inception to 81.0 pence per ordinary share at 31 December 2022 (2021: 78.0 pence per ordinary share).
- Special dividend of 2.25 pence per share paid on 11 January 2023 taking the adjusted net asset value to 59.35 pence per share and cumulative dividends paid to date to 83.25 pence per share.
- £24.2 million raised in fully subscribed September 2021 offer, with shares allotted at the beginning of the year. Gross Applications of £23.5 million received to date in relation to November 2022 offer, with shares to be allotted in early April 2023.
- The Board is declaring an interim dividend of 1.5 pence per share in respect of the year ending 31 December 2023. The dividend will be paid on 26 June 2023 to shareholders on the register on 12 May 2023.

Chairman's Statement

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

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

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

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

Financial Performance

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

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

Realisations in the Year

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

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

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

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

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

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

New Investments

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

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

Financial Results

During the year, the Board paid ordinary dividends of 3.0 pence per ordinary share in respect of the year ended 31 December 2022, bringing the cumulative dividends paid as at 31 December 2022 to 81.0 pence per ordinary share.

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

	Pence per ordinary share	£000
NAV at 31 December 2021	61.5	87,375
Increase in value	2.3	4,287
Gain on disposal of investments	2.0	3,586
Net underlying change in investment portfolio	4.3	7,873
Net operating costs	(0.5)	(985)
Incentive fee	(0.4)	(635)
Total Return in period	3.4	6,253
Issue/buy-back of new shares*	(0.3)	23,685
NAV before the payment of dividends	64.6	117,313
Dividends paid	(3.0)	(5,444)
NAV at 31 December 2022	**61.6**	**111,869**
Cumulative dividends paid	81.0	
Total Return: at 31 December 2022	**142.6**	
at 31 December 2021	139.5	

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

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

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

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

Shareholder Relations

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

Dividends

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

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

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

Dividend Re-investment Scheme ("DRIS")

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

1 the dividends remain tax free; and

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

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

Liquidity and Fundraising

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

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

Share Premium Cancellation

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

Shareholder Relations

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

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

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

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

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

Post Balance Sheet Events

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

Outlook

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

The Company's current fundraising is being well supported by new and existing shareholders, and we remain grateful as always for your ongoing trust and support. The funds raised will keep the Company well positioned to continue to support the existing portfolio and to continue to seek out the most promising new opportunities to augment the portfolio. I look forward to updating investors on this progress later in the year.

Peter Waller

Chairman

20 March 2023

Objectives and Key Policies

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

Investment Policy

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

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

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

Borrowing

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

Co-investment

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

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

Asset Mix

Cash which is pending investment in VCT-qualifying securities is primarily held in interest bearing instant access, short-notice bank accounts, money market funds and investment funds listed on a recognised stock exchange (including FCA authorised and regulated UCITS funds).

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom are non-executive, can be found on page 49 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 36 of the annual report.

Processes and Operations

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

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

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

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

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

Administration of the Listed Investment Funds Quoted Portfolio

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

Key Performance Indicators

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

Total Return (as at 31 December)

The chart 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 an index of generalist VCTs that are members of the AIC (based on figures provided by Morningstar). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 51 of the annual report.

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

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

The Board considers Total Return to be the primary measure of shareholder value. The IRR returns from the offers over the last ten years are set out on page 13 of the annual report. IRR is the annual rate of return that equates the cost at the date of the original investment, with the value of subsequent dividends plus the audited 31 December 2022 Net Asset Value per Share. This excludes the benefit of any initial tax relief.

Set out on page 13 of the annual report is the annualised return over 10, 5, 3, 2 and 1 years to 31 December 2022. The annualised return is calculated with reference to the cumulative dividends paid in the period plus the unaudited NAV at 31 December 2022.

Expenses

Ongoing Charges

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

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

** Alternative Performance Measure*

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

Expenses Cap

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

Compliance with VCT Legislative Tests

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

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

Income Test

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

Retained Income Test

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

Qualifying Investments Test

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

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

Eligible Shares Test

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

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

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

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

Investment Limits

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

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

Maximum Single Investment Test

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

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

Further restrictions placed on VCTs are:

Dividends from Cancelled Share Premium

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

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

Other

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

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

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

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

Portfolio Structure and Analysis

Portfolio Structure

The broad range of the portfolio is illustrated on page 16 of the annual report, with 47 per cent of the portfolio valuation being held for more than five years, whilst 93 per cent is held at cost or above. 18 per cent of the portfolio value is held in loans and preference shares, although loans now account for only 4 per cent of the value.

Portfolio Analysis

Also included on page 17 of the annual report is a profile of the portfolio by investments made before and after the VCT rule changes in 2015, and the break down by industry sector.

Investment Review

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

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

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

The Portfolio

£81.4 million	Fair value of the portfolio	(2021: £70.0 million)
26	Number of portfolio companies with a value of more than £0.5 million	(2021: 22)
£0.8 million	Income from the portfolio	(2021: £0.7 million)
£16.3 million	Level of investment	(2021: £6.1 million)
£8.0 million	Return from portfolio	(2021: £26.0 million)

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

Fair value changes

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

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

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

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

Other Significant Investment Movements

Investments

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

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

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

Disposal of Investments

During the year to 31 December 2022, the Company received proceeds from disposals of £12.9 million, a net gain of £3.6 million over the opening carrying value at the beginning of the year, and an overall net gain of £4.1 million over cost. This included the successful realisations of Springboard, Intelligent Office and Vuealta. Further details are given in the Chairman's statement.

Table D **Disposal of Investments**	Net proceeds from sale of investments £million	Opening value 31 December 2021* £million	Gain on opening value £million
Total investment disposals	**12.9**	**9.3**	**3.6**

* Including further investments during the year prior to realisation.

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

Investment Portfolio Composition

As at 31 December 2022, the portfolio was valued at £81.4 million, comprising wholly of unquoted investments. An analysis of the movements in the year is shown in note 7 below.

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

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

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

Valuation Policy

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

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

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

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

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

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

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

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

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

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

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

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

Sustainable Investment Principles

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

To seek to understand the ESG related impacts and potential impacts of investments, aiming to grow and enhance positive impacts and to avoid, reduce or minimise any negative impacts over an investment's lifetime, leaving them overall better businesses;

To play a positive role in the investor, business and wider communities by promoting good practice in ESG management, and by being transparent in the way that investments are made and how the Manager behaves;

To increase focus on the challenge of climate change both as it may be affected by our investments, and as it may impact on them and their resilience to possible climate change scenarios;

To show leadership by managing the Manager's own business' ESG impacts to the best of their ability; and

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

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

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

Pre-investment Phase:

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

Portfolio Phase:

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

Reporting:

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

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

ESG Performance Data and Reporting

ESG KPI data analysis

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

Annual company specific ESG performance progress report

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

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

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

Growing our economy

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

Improving our society

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

Valuing our people

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

Protecting our environment

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

Summary and Outlook

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

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

David Hall

YFM Private Equity Limited

Portfolio Summary at 31 December 2022

Name of company	Date of initial investment	Location	Industry Sector	Amount Invested	Valuation at 31 December 2022	Recognised income/ proceeds to date	Realised & unrealised value to date*
				£000	£000	£000	£000
Matillion Limited	Nov-16	Manchester	Data	1,778	21,874	5,946	27,820
Outpost VFX Limited	Feb-21	Bournemouth	New Media	3,000	6,202	10	6,212
Unbiased EC1 Limited	Dec-19	London	Tech-enabled Services	3,731	6,072	-	6,072
Wooshii Limited	May-19	London	New Media	3,096	4,197	305	4,502
Displayplan Holdings Limited	Jan-12	Stevenage	Business Services	700	4,109	1,706	5,815
Elucidat Ltd	May-19	Brighton	Application Software	2,640	4,039	4	4,043
ACC Aviation Group Limited	Nov-14	Reigate	Business Services	1,379	3,575	3,525	7,100
Force24 Ltd	Nov-20	Leeds	Application Software	2,100	3,091	-	3,091
Vypr Validation Technologies Limited	Jan-21	Manchester	Tech-enabled Services	2,200	2,598	-	2,598
SharpCloud Software Limited	Oct-19	London	Data	2,271	2,508	-	2,508
Relative Insight Limited	Mar-22	Lancaster	Tech-enabled Services	2,000	2,010	-	2,010
Investment companies	Apr-15	-	-	2,500	1,961	-	1,961
KeTech Enterprises Limited	Nov-15	Nottingham	Tech-enabled Services	2,000	1,788	2,599	4,387
Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,485	-	1,485
AutomatePro Limited	Dec-22	London	Cloud & DevOps	1,483	1,483	-	1,483
Plandek Limited	Oct-22	London	Cloud & DevOps	1,380	1,380	-	1,380
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Cloud & DevOps	2,045	1,378	-	1,378
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Application Software	1,163	1,359	527	1,886
Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	1,284	-	1,284
Summize Limited	Oct-22	Manchester	Application Software	1,200	1,200	-	1,200
Vuealta Holdings Limited	Sep-21	London	Tech-enabled Services	2,030	1,192	3,067	4,259
Ncam Technologies Limited	Mar-18	London	New Media	1,762	1,175	87	1,262
Biorelate Limited	Nov-22	Manchester	Application Software	1,040	1,040	-	1,040
Quality Clouds Limited	May-22	London	Cloud & DevOps	1,000	1,000	-	1,000
Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data	1,000	1,000	-	1,000
E2E Engineering Limited	Sep-17	Welwyn Garden City	Business Services	600	800	142	942
Wakefield Acoustics** (via Malvar Engineering Limited)	Dec-14	Wakefield	Advanced Manufacturing	761	648	442	1,090
Other investments below £0.5 million				10,136	937	5,210	6,147
Total unquoted investments				**57,787**	**81,385**	**23,570**	**104,955**
Full disposals to date				45,622	-	74,347	74,347
Total portfolio				**103,409**	**81,385**	**97,917**	**179,302**

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

** realised in January 2023 at the valuation shown

Summary of Portfolio Movement since 31 December 2021

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

Risk Factors

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

The Board seeks to mitigate its emerging and principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in section 4: “Audit, Risk and Internal Control” of The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018. Details of the Company’s internal controls are contained in the Corporate Governance Internal Control section on pages 47 and 48 and further information on exposure to risks, including those associated with financial instruments, can be found in note 17a of the financial statements.

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

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

VCT Qualifying Status:

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

Mitigation - One of the Key Performance Indicators monitored by the Company is the compliance with VCT rules. Compliance with these rules is closely monitored by the Manager on an ongoing basis and regularly reported to and reviewed by the Board. The Company also makes use of external experts, who review the Company’s compliance with VCT rules on a regular basis. Details of how the Company manages these requirements can be found under the heading “Compliance with VCT Legislative Tests” on pages 14 and 15 of the annual report.

Change – No change

Economic:

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

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

Change – Increased – following a reduction of risk owing to COVID-19 restrictions ending, the war in Ukraine and rising global inflation has created a small increase to this risk.

Investment and Strategic:

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

Mitigation - The Board reviews strategy annually. At each of the Board meetings, the directors review the appropriateness of the Company’s objectives and stated strategy in response to changes in the operating environment and peer group activity. It also reviews compliance of the Manager with the stated investment strategy.

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

Change – No change

Regulatory:

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

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

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

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

Change – No change

Legislative:

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

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

Change – No change

Reputational:

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

Mitigation **-** The Board is comprised of directors with suitable experience and qualifications who report annually to the shareholders on their independence. The Manager is well-respected, with a proven track record. It has a formal recruitment process to employ experienced investment staff. Advice is sought from external advisors where required.

Change – No change

Operational:

Risk – The Company is reliant on a number of third parties, in particular the Manager, for investment management and administrative services. Failure of the operational systems and controls of these third parties could result in an inability to provide accurate reporting and monitoring.

Mitigation **-** The Manager has a documented business continuity plan, which provides for back-up services in the event of a system breakdown. The Manager's systems are protected against viruses and other cyber-attacks. The Manager regularly tests its business continuity plan. Both the Company and the Manager maintain appropriate insurances.

Change – No change

Cyber Security and Information Technology:

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

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

Change – No change

ESG

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

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

Change – No change

Liquidity:

Risk –

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

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

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

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

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

Change – No change

Other Matters

Section 172 Statement

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

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

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

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

Key Stakeholders

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

Investors

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

The Company encourages shareholders to attend its Annual General Meeting.

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

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

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

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

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

During the year the Board kept its arrangements for dividends, share buy-backs and the dividend re-investment scheme under constant review. Along with normal dividends totalling 3.0 pence per ordinary share in the year ended 31 December 2022, a special dividend of 2.25 pence per ordinary share was paid in January 2023, following the realisation of the Company's investments in Springboard and Intelligent Office.

Manager

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

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

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

Portfolio Companies

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

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

Employees

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

Environment and Community

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

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

Business Conduct

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

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

Peter Waller

Chairman

Statement of Comprehensive Income
For the year ended 31 December 2022

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

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

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with UK-adopted Financial Reporting Standards (UK-adopted IFRS). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in July 2022 – "SORP") published by the AIC.

Balance Sheet
At 31 December 2022

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

The accompanying notes on pages 65 to 89 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 2023.

Peter Waller

Chairman

Statement of Changes in Equity
For the year ended 31 December 2022

	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 2020	14,133	16,735	5,615	22,461	9,254	2,731	70,929
Revenue loss for the year	-	-	-	-	-	*(130)*	*(130)*
Expenses charged to capital	-	-	-	*(5,525)*	-	-	*(5,525)*
Investment holding gain on investments held at fair value	-	-	-	-	*20,702*	-	*20,702*
Realisation of investments in the year	-	-	-	*5,342*	-	-	*5,342*
Total comprehensive (expense) income for the year	-	-	-	(183)	20,702	(130)	20,389
Issue of share capital	*1,276*	*5,774*	-	-	-	-	*7,050*
Issue of shares – DRIS	*399*	*1,851*	-	-	-	-	*2,250*
*Issue costs ** *	-	*(238)*	-	*(48)*	-	-	*(286)*
Purchase of own shares	-	-	-	*(1,942)*	-	-	*(1,942)*
Dividends	-	-	-	*(9,456)*	-	*(1,559)*	*(11,015)*
Total transactions with owners	1,675	7,387	-	(11,446)	-	(1,559)	(3,943)
Realisation of prior year investment holding gains	-	-	-	1,986	(1,947)	(39)	-
Balance at 31 December 2021	**15,808**	**24,122**	**5,615**	**12,818**	**28,009**	**1,003**	**87,375**
Revenue return for the year	-	-	-	-	-	*354*	*354*
Expenses charged to capital	-	-	-	*(1,974)*	-	-	*(1,974)*
Investment holding gain on investments held at fair value	-	-	-	-	*4,287*	-	*4,287*
Realisation of investments in the year	-	-	-	*3,586*	-	-	*3,586*
Total comprehensive income for the year	-	-	-	1,612	4,287	354	6,253
Issue of share capital	*4,023*	*21,274*	-	-	-	-	*25,297*
Issue of shares – DRIS	*183*	*902*	-	-	-	-	*1,085*
*Issue costs ** *	-	*(1,125)*	-	-	-	-	*(1,125)*
Share premium cancellation	-	*(44,315)*	-	*44,315*	-	-	-
Purchase of own shares	-	-	-	*(1,572)*	-	-	*(1,572)*
Dividends	-	-	-	*(5,444)*	-	-	*(5,444)*
Total transactions with owners	4,206	(23,264)	-	37,299	-	-	18,241

Realisation of prior year investment holding gains	-	-	-	534	(534)	-	-
Balance at 31 December 2022	**20,014**	**858**	**5,615**	**52,263**	**31,762**	**1,357**	**111,869**

The accompanying notes on pages 65 to 89 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
	£000	£000	£000
Distributable reserves as shown above	**52,263**	**1,357**	**53,620**
Income not yet distributable	-	(988)	(988)
Cancelled share premium not yet distributable	(27,879)	-	(27,879)
Revaluation losses	(490)	-	(490)
Dividend paid 11 January 2023	(4,097)	-	(4,097)
Reserves available for distribution* **	**19,797**	**369**	**20,166**

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

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

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

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

The capital reserve and revenue reserve are both distributable reserves. The reserves total £53,620,000, representing an increase of £39,799,000 during the year. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

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

The Company held a General Meeting on 25 February 2022, at which shareholders approved the cancellation of the Company's share premium account, subject to the sanction of the High Court which was subsequently received on 11 March 2022. Total share premium cancelled will be available for distribution from the following dates:

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

Statement of Cash Flows
For the year ended 31 December 2022

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

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

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

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

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

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of Preparation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Valuation of Investments

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

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

> **Revenue multiples**. An appropriate multiple, given the risk profile and revenue growth prospects of the underlying company, is applied to the revenue of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.

> **Earnings multiple**. An appropriate multiple, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of the company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies used to derive the multiple.

> **Net assets**. The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.

> **Discounted cash flows of the underlying business**. The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

> **Discounted cash flows from the investment**. Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

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

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

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

Listed Investment Funds

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

Income

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

Expenses

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

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

Incentive Fee

The incentive fee is accounted for on an accruals basis. As further detailed in note 3, the incentive fee is calculated as 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the Company's middle market price per ordinary share on the five dealing days prior to that day, exceeds the Hurdle (as defined in note 3), multiplied by the number of ordinary shares issued and the ordinary shares under option. At the end of each reporting period, an accrual is recognised based upon the cumulative dividends per ordinary share paid to the reporting date, plus the average of the Company's middle market price per ordinary share on the five dealing days prior to the reporting date. The incentive fee is charged wholly through the Capital column.

Cash, Cash Equivalents and Current Asset Investments

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

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

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

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

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

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

Share Capital and Reserves

Share Capital

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

Share Premium Account

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

Capital Reserve

The following are included within this reserve:

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

Investment Holding Gains and Losses Reserve

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

Revenue Reserve

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

Taxation

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

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

Dividends Payable

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

Segmental Reporting

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

Critical Accounting Estimates and Judgements

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

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

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

2. Income

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

3. Administrative Expenses

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

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

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

No fees are payable to the auditor in respect of other services (2021: £nil, apart from costs of £12,000 for audit-related services which were charged to the share premium account).

YFM Private Equity Limited has acted as Manager and performed administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014, 7 August 2015 and 13 November 2019 (the "IA"). The agreement may be terminated by not less than twelve months' notice given by either party at any time. Under an Investment Agreement dated 13 November 2019, YFM Private Equity Limited was appointed as the Company's Alternative Investment Fund Manager. As a result, the Company was de-registered by the Financial Conduct Authority as a Small Registered Alternative Fund Manager on 24 March 2021 and responsibility for the custody of the Company's investments passed to YFM Private Equity Limited on that date.

The key features of the agreement are:

- YFM Private Equity Limited receives a Manager's fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;
- The annual Manager's fee payable to the Manager is 1.0 per cent on all surplus cash, defined as all cash above £5 million. The annual fee on all other assets will be 2.0 per cent of net assets per annum. Based on the Company's net assets at 31 December 2022 of £111,869,000, and cash of £28,274,000 at that date this equates to approximately £2,002,000 per annum;

- YFM Private Equity Limited shall bear the annual operating costs of the Company (including the Manager's fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company; and
- under the IA, YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £75,000 for the year ended 31 December 2022 (2021: £70,000).

When the Company makes investments into its unquoted portfolio, the Manager charges that investee an advisory fee. With effect from 1 October 2013, if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over the Company's financial year, this excess will be rebated to the Company. As at 31 December 2022, the Company was due a rebate from the Manager of £nil (2021: £nil).

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

The total remuneration payable to YFM Private Equity Limited under the IA in the year was £1,861,000 (2021: £1,562,000).

Under the IA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2022, the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £2,026,000 (2021: £1,235,000).

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

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

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

As at 31 December 2022, the total of cumulative cash dividends paid and mid-market price was 137.25 pence per ordinary share. Consequently the Hurdle was exceeded and a performance related incentive of £635,000 for the year ended 31 December 2022 is payable. The Hurdle for the year ending 31 December 2023 is reset at 137.25 pence per ordinary share.

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

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

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

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 50 of the annual report under the heading "Directors' Remuneration for the year ended 31 December 2022 (audited)".

4 Taxation

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

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

Deferred tax assets of £3,703,000 (2021: £3,072,000) calculated at 25% (2021: 25%) in respect of unrelieved management expenses (£14.81 million as at 31 December 2022 and £12.29 million as at 31 December 2021) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

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

5. Dividends

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

	2022			2021		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Interim dividend for the year ended 31 December 2022 of 1.5p (2021: 1.5p) per ordinary share	**-**	**2,718**	**2,718**	-	1,934	1,934
Second interim dividend for the year ended 31 December 2022 of 1.5p (2021: 1.5p) per ordinary share	**-**	**2,726**	**2,726**	1,559	544	2,103
Third interim dividend for the year ended 31 December 2021 of 5.0p per ordinary share	**-**	**-**	**-**	-	6,978	6,978
	-	**5,444**	**5,444**	1,559	9,456	11,015
Shares allotted under DRIS			**(1,085)**			(2,250)
Dividends paid in Statement of Cashflows			**4,359**			8.765

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

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

A special dividend of 2.25 pence per ordinary share in respect of the year ending 31 December 2023, amounting to £4,097,000, was paid on 11 January 2023 to shareholders on the register on 18 November 2022. An interim dividend of 1.5 pence per ordinary share, in respect of the year ending 31 December 2023, will be paid on 26 June 2023 to shareholders on the register on 12 May 2023. These dividends were not recognised in the year ended 31 December 2022 as the obligations did not exist at the balance sheet date.

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £6,253,000 (2021: £20,389,000) and 181,163,554 (2021: 138,592,343) ordinary shares being the weighted average number of ordinary shares in issue during the year.

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

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

During the year the Company allotted 1,826,028 new ordinary shares in respect of its DRIS and 40,224,521 new ordinary shares from the fundraising.

The Company has also repurchased 2,737,038 of its own shares in the year, and these shares are held in the capital reserve. The total of 18,666,812 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

The Company has no potentially dilutive shares and consequently, basic and diluted earnings per ordinary share are equivalent in both the year ended 31 December 2022 and 31 December 2021.

7. Financial Assets at Fair Value though 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 fixed income securities classified as held at fair value through profit or loss.

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

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

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

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

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

Valuation of Investments

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

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

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

*Following the merger between the Company and British Smaller Technologies Company VCT plc a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is realised at the point of disposal to the capital reserve. At 31 December 2022 a total of £27,000 (2021: £27,000) was held on investments yet to be realised in the investment holdings gains and losses reserve.

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2021: £nil).

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect changes in fair value of financial assets held at the price of recent investment, or to adjust revenue and earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's level 3 investments, 75 per cent are held on a revenue multiple basis and 12 per cent on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table on page 76 of the annual report sets out the range of Revenue Multiple (RM), Earnings Multiple (EM) multiple, and discounts applied in arriving at investments valued on these bases. The remaining 13 per cent are valued based on cost or price of recent investment, reviewed for change in fair value (7 per cent), net asset value reviewed for change in fair value (3 per cent) and expected sale proceeds (3 per cent).

The following disposals took place in the year:

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

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

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

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 £111,869,000 (2021: £87,375,000) and 181,468,710 (2021: 142,155,199) ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 December 2022.

The Company has no potentially dilutive shares and consequently, basic and diluted net asset values per ordinary share are equivalent in both the years ended 31 December 2022 and 31 December 2021.

9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 81.0 pence per ordinary share (2021: 78.0 pence per ordinary share) plus the net asset value as calculated per note 8 above.

10. Financial Commitments

There are no financial commitments at 31 December 2022 or 31 December 2021.

11. Related Party Transactions

Fees payable during the year to the directors and their interests in shares of the Company are disclosed within the Directors' Remuneration Report on page 50 of the annual report. There were no amounts outstanding and due to the directors at 31 December 2022 (2021: £nil).

12. Events after the Balance Sheet Date

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

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

13. Contingent Liability

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

14. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2022 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at https://data.fca.org.uk/#/nsm/nationalstoragemechanism. They can also shortly be viewed on the Company's website at http://www.bscfunds.com. Hard copies of the statutory accounts for the year to 31 March 2022 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.

15. Directors

The directors of the Company are Mr P C Waller, Ms B L Anderson and Mr R S McDowell.

16. Annual General Meeting

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

17. Interim Dividend for the Year Ending 31 March 2023

The directors are pleased to announce the payment of an interim dividend for the year ending 31 December 2023 of 1.5 pence per ordinary share ("Interim Dividend").

The Interim Dividend will be paid on 26 June 2023 to those shareholders on the Company's register at the close of business on 12 May 2023. The ex-dividend date will be 11 May 2023.

The directors are not proposing a final dividend for the year ended 31 December 2022.

18. Dividend Re-investment Scheme

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of new or updated DRIS elections in respect of the Interim Dividend is the close of business on 26 May 2023.

19. Inside Information

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

For further information, please contact:

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