

# **British Smaller Companies VCT2 plc**

## **Annual Financial Report Announcement**

### **for the year ended 31 December 2021**

British Smaller Companies VCT2 plc (the “Company”) today announces its audited results for the year ended 31 December 2021.

#### **HIGHLIGHTS**

- 26.4 per cent return on opening net assets.
- Total Return increased by 14.5p to 139.5p per share.
- Net asset value at 31 December 2021 of 61.5 pence per share (2020: 55.0 pence per share).
- Realisations of investments and loan repayments generated total proceeds of £11.7 million in the year, a gain of £5.3 million over the opening carrying value and £7.7 million over cost.
- Total dividends paid during the year ended 31 December 2021 of 8.0 pence per share (2020: 3.5 pence per share).
- Total cumulative dividends paid since inception of 78.0 pence per ordinary share at 31 December 2021 (2020: 70.0 pence per ordinary share).
- Three new investments and seven follow-on investments totalling £6.1 million completed during the year.
- 6.8 million raised in fully subscribed March 2021 offer. A further £24.2 million raised in fully subscribed September 2021 offer, with shares allotted shortly after the year-end.
- The Board is declaring an interim dividend of 1.5p per share in respect of the year ending 31 December 2022. The dividend will be paid on 6 May 2022 to shareholders on the register on 1 April 2022.

#### **Chairman’s Statement**

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

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

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

## Financial Performance

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

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

## Realisations in the Year

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

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

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

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

## New Investments

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

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

## Financial Results

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

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

	Pence per ordinary share	£000
NAV at 31 December 2020	55.0	70,929
Increase in portfolio value	14.6	20,702
Gain on disposal of investments	3.8	5,342
Gain arising from the portfolio	18.4	26,044
Net operating costs	(0.8)	(1,248)
Incentive fee	(3.1)	(4,407)
Issue/(buy-back) of new shares	-	7,072
<b>Total Return in year</b>	<b>14.5</b>	<b>27,461</b>
NAV before the payment of dividends	69.5	98,390
Dividends paid	(8.0)	(11,015)
<b>NAV at 31 December 2021</b>	<b>61.5</b>	<b>87,375</b>
Cumulative dividends paid	78.0	
<b>Total Return:</b>		
<b>at 31 December 2021</b>	<b>139.5</b>	
at 31 December 2020	125.0	

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 £49.1 million, delivered a return over the year of £26.0 million.

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

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

## Annual General Meeting

The Annual General Meeting of the Company will be held at 12:00 noon on 13 June 2022 at 33 St James Square, London SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 91 of the annual report.

## Dividends

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

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

## Dividend Re-investment Scheme (“DRIS”)

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

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

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

## Liquidity and Fundraising

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

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

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

## Share Premium Cancellation

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

## Shareholder Relations

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

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

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

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

## **Post Balance Sheet Events**

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

## **Ukraine**

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

## **Outlook**

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

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

**Peter Waller**

Chairman

## **Objectives and Key Policies**

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

### **Investment Policy**

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

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

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

### **Borrowing**

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

### **Co-investment**

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

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

### **Asset Mix**

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

### **Remuneration Policy**

The Company's policy on the remuneration of its directors, all of whom are non-executive, can be found on page 49 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 intensively works with the businesses and management teams in which the Company is invested, monitoring progress, effecting change and, where applicable, redefining strategies with a view to maximising values through structured exit processes.

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

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

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

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

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

## Key Performance Indicators

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

### **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 which 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 DRIS (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 table below shows the cumulative dividends, the Total Return on each fundraising round per ordinary share and the IRR if a shareholder had not opted to participate in the Company's DRIS. The cumulative dividend, total return and IRR figures in this table exclude the benefits of all tax reliefs.

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

### Notes

- 1 The offer price for the relevant year excluding the benefit of income tax relief available to investors at the time of the offer.
- 2 Total Return to date is cumulative dividends paid plus the 31 December 2021 net asset value in pence per ordinary share. This is an Alternative Performance Measure.
- 3 IRR is the unaudited annual rate of return that equates the offer price at the date of the original investment, with the value of subsequent dividends plus the 31 December 2021 net asset value per ordinary share. This excludes the benefit of any initial tax relief.

Set out on page 13 of the annual report is the average annual annualised investment rate of return over 1, 2, 3, 5 and 10 years to 31 December 2021. The average annual investment rate of return is calculated with reference to the cumulative dividends paid in the period plus the unaudited NAV at 31 December 2021.



## Expenses

### *Ongoing Charges*

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

	Year to 31 December 2021 (%)	Year to 31 December 2020 (%)
<b>Ongoing Charges figure*</b>	<b>2.16</b>	2.45

\* *Alternative Performance Measure*

### *Expenses Cap*

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

## Compliance with VCT Legislative Tests

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

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

### *Income Test*

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

### *Retained Income Test*

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

### *Qualifying Investments Test*

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

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

### *Eligible Shares Test*

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

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

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

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

#### *Investment Limits*

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

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

#### *Maximum Single Investment Test*

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

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

Further restrictions placed on VCTs are:

### **Dividends from Cancelled Share Premium**

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

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

### **Other**

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

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

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

## Portfolio Composition

### Portfolio Structure

The broad range of the investment portfolio is illustrated on page 16 of the annual report with 62 per cent of the portfolio valuation being held for more than five years, whilst 85 per cent is held at cost or above. 21 per cent of the portfolio value is held in loans and preference shares, although loans now account for only 5 per cent of the value.

### Portfolio Diversity

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

### Investment Review

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

### The Portfolio

£70.0 million	Fair value of the portfolio	(2020: £49.1 million)
22	Number of portfolio companies with a value of more than £0.5 million	(2020: 19)
£0.7 million	Income from the portfolio	(2020: £0.8 million*)
£6.1 million	Level of investment	(2020: £4.0 million)
£26.0 million	Return from portfolio	(2020: £5.2 million*)

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

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

<b>Table A Portfolio</b>	<b>£million</b>
Opening fair value at 1 January 2021	49.1
Additions	6.2
Disposal proceeds*	(11.2)
Valuation movement	25.9
<b>Closing fair value at 31 December 2021</b>	<b>70.0</b>

\*excluding deferred consideration

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

#### *Fair value changes*

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

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

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

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

## Other Significant Investment Movements

### Investments

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

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

## Disposal of Investments

During the year to 31 December 2021 the Company received proceeds from disposals and repayments of loans of £11.7 million, a gain of £5.3 million over the opening carrying value and £7.7 million over cost. This included the very successful realisation of Deep Secure and the partial realisation of Matillion. The Company's investment in Friska was disposed of for nil proceeds; the investment had been fully written down in previous periods. Further details are given in the Chairman's statement above.

<b>Table D</b>			
<b>Disposal of Investments</b>	<b>Net proceeds from sale of investments</b>	<b>Opening value 31 December 2020</b>	<b>Gain on opening value</b>
	<b>£million</b>	<b>£million</b>	<b>£million</b>
<b>Total investment disposals</b>	<b>11.7</b>	<b>6.4</b>	<b>5.3</b>

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

## Portfolio Composition

As at 31 December 2021 the portfolio was valued at £70.0 million, comprising wholly of unquoted investments. An analysis of the movements in the year is shown in note 7.

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

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

## Valuation Policy

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

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

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

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

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

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

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

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

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

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

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

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

### **Sustainable Investment Principles**

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

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

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

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

### **Pre-investment Phase:**

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

### **Portfolio Phase:**

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

### **Reporting:**

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

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

## **ESG Performance Data and Reporting**

### *ESG KPI data analysis*

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

### *Annual company specific ESG performance progress report*

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

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

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

### *Growing our economy*

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

### *Improving our society*

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

### *Valuing our people*

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

### *Protecting our environment*

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

## **Summary and Outlook**

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

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

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

### **David Hall**

YFM Private Equity Limited



## Portfolio Summary at 31 December 2021

Name of company	Date of initial investment	Location	Industry Sector	Current cost	Valuation at 31 December 2021	Proceeds to date	Realised & unrealised value to date*
				£000	£000	£000	£000
Matillion Limited	Nov-16	Manchester	Data & Analytics	1,456	25,050	5,946	30,996
Springboard Research Holdings Limited	Oct-14	Milton Keynes	Data & Analytics	1,881	3,959	120	4,079
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,163	-	3,163
Wooshii Limited	May-19	London	New Media	2,440	3,162	-	3,162
Unbiased EC1 Limited	Dec-19	London	Software Applications	1,964	3,082	-	3,082
SharpCloud Software Limited	Oct-19	London	Data & Analytics	2,271	2,927	-	2,927
Elucidat Ltd	May-19	Brighton	Software Applications	1,800	2,926	-	2,926
Force24 Ltd	Nov-20	Leeds	Software Applications	1,600	2,773	-	2,773
ACC Aviation Group Limited**	Nov-14	Reigate	Business Services	145	2,450	1,233	3,683
KeTech Enterprises Limited	Nov-15	Nottingham	Data & Analytics	10	1,976	1,775	3,751
Investment companies	Apr-15	-	-	2,500	1,895	-	1,895
DisplayPlan Holdings Limited	Jan-12	Stevenage	New Media	70	1,891	820	2,711
Ncam Technologies Limited	Mar-18	London	New Media	1,675	1,636	87	1,723
Outpost VFX Limited	Feb-21	Bournemouth	New Media	1,000	1,614	-	1,614
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Software Applications	1,636	1,561	-	1,561
Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	1,520	-	1,520
Vuealta Group Limited	Sep-21	London	Software Applications	1,399	1,491	-	1,491
Vypr Validation Technologies Limited	Jan-21	Manchester	Data & Analytics	1,000	1,386	-	1,386
Arcus Global Limited	May-18	Cambridge	Software Applications	2,050	1,324	-	1,324
Frescobol Carioca Ltd	Mar-19	London	Retail & Brands	1,200	1,148	-	1,148
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software Applications	1,163	983	-	983
Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data & Analytics	1,000	750	-	750
e2E Engineering Limited	Sep-17	Welwyn Garden City	Business Services	600	688	-	688
Other investments below £0.5 million				9,629	664	5,384	6,048
<b>Total investments</b>				<b>42,037</b>	<b>70,019</b>	<b>15,365</b>	<b>85,384</b>
Full disposals to date				37,885	-	56,000	56,000
<b>Total portfolio</b>				<b>79,922</b>	<b>70,019</b>	<b>71,365</b>	<b>141,384</b>

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

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

## Summary of Portfolio Movement since 31 December 2020

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

## Portfolio

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

## Risk Factors

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

The Covid-19 pandemic and the current conflict in Ukraine created heightened uncertainty for the Company, but the Board do not consider that it has changed the nature of the principal risks. The Board considers that the present processes for mitigating those risks remain appropriate.

The Board seeks to mitigate its emerging and principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in section 4: “Audit, Risk and Internal Control” of The UK Corporate Governance Code issued by the Financial Reporting Council in July 2018. Details of the Company’s internal controls are contained in the Corporate Governance Internal Control section on pages 47 and 48 of the annual report and further information on exposure to risks, including those associated with financial instruments, can be found in note 16a of the financial statements.

### Loss of Approval as a VCT

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

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

### Economic

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

**Mitigation** - As well as the response to the ‘Investment and Strategic’ risk below, the Company has a clear investment policy (summarised above) and a diversified portfolio operating in a range of sectors. The Manager actively monitors investee company performance, which provides quality information for monthly reviews of the portfolio. The Manager ensures that the portfolio has plans to manage the impact of economic risk.

### Investment and Strategic

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

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

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

## **Regulatory**

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

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

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

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

## **Reputational**

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

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

## **Operational**

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

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

## **Cyber/IT**

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

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

## **Climate**

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

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

## **Financial**

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

**Mitigation** - The Company's internal control and risk management processes are described on pages 47 and 48 of the annual report.

## **Market/Liquidity**

**Risk** - Lack of liquidity in both the venture capital and public markets.

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

For quoted companies, the fact that a share is traded on the public market does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. In addition, smaller companies' shares are often less liquid than larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

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

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

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

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

## Other Matters

### Section 172 Statement

This Section 172 Statement should be read in conjunction with the other contents of the Strategic Report, on pages 6 to 36 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 (AGM), but unfortunately the 2021 AGM had to be held as a "closed" meeting due to the restrictions on social gatherings at the time. It was not possible to hold the AGM electronically because such general meetings were not yet permitted by the Company's Articles of Association and the legislation permitting electronic general meetings had not been passed at the time. A resolution was presented and passed at the 2021 AGM to allow electronic general meetings to be held in future.

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

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

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

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

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

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

### *Manager*

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

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

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

### *Portfolio Companies*

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

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

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

## **Employees**

The Company has no employees. The Board is composed of one female non-executive director and two male non-executive directors. For a review of the policies used when appointing directors to the Board of the Company, please refer to the Directors' Remuneration Report on pages 49 to 51 of the annual report.

## **Environment and Community**

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the 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/](http://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 2021

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

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

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with UK adopted international accounting standards. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in April 2021 – "SORP") published by the AIC.

# Balance Sheet

## At 31 December 2021

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

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

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 21 March 2022.

**Peter Waller**

Chairman

# Statement of Changes in Equity

For the year ended 31 December 2021

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

The accompanying notes on pages 65 to 90 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
<b>Distributable reserves as shown above</b>	12,818	1,003	13,821
<i>Less: income not yet distributable</i>	-	(968)	(968)
<b>Reserves available for distribution***</b>	<b>12,818</b>	<b>35</b>	<b>12,853</b>

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

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

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

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

The capital reserve and revenue reserve are both distributable reserves. The reserves total £13,821,000, representing a decrease of £11,371,000 during the year. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £13,821,000 shown above, £968,000 relates to income not yet distributable.

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

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

# Statement of Cash Flows

For the year ended 31 December 2021

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

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

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

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

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

# Notes to the Financial Statements

## 1. Principal Accounting Policies

### Basis of Preparation

The accounts have been prepared on a going concern basis and in accordance with UK adopted international accounting standards. The directors' assessment of going concern is set out in the Director's Report on page 38 of the annual report.

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

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies (issued in April 2021 – "SORP") to the extent that they do not conflict with International Accounting Standards in conformity with the Companies Act 2006.

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

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

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

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

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

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

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

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

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

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

## Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 “Fair Value Measurement” and using the International Private Equity and Venture Capital Valuation Guidelines (“the IPEV Guidelines”) updated in December 2018. A detailed explanation of the valuation policies of the Company is included below.

### *Initial Measurement*

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

### *Subsequent Measurement*

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

## Unquoted Investments

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

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

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

## Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis.

## **Income**

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

## **Expenses**

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

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

## **Incentive Fee**

The incentive fee is accounted for on an accruals basis. As further detailed in note 3, the incentive fee is calculated as 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the Company's middle market price per ordinary share on the five dealing days prior to that day, exceeds the Hurdle (as defined 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 and Cash Equivalents**

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

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

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

## **Share Capital and Reserves**

### *Share Capital*

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

### *Share Premium Account*

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

### *Capital Redemption Reserve*

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



### *Capital Reserve*

The following are included within this reserve:

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

### *Investment Holding Gains and Losses Reserve*

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

### *Revenue Reserve*

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

### **Taxation**

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

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

### **Dividends Payable**

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

### **Segmental Reporting**

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

### **Critical Accounting Estimates and Judgements**

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

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

## 2. Income

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

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

## 3. Administrative Expenses

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

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

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

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

YFM Private Equity Limited has acted as Manager and performed administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014, 7 August 2015 and 13 November 2019 (the "IA"). The agreement may be terminated by not less than twelve months' notice given by either party at any time. Under an Investment Agreement dated 13 November 2019, YFM Private Equity Limited was appointed as the Company's Alternative Investment Fund Manager. As a result, the Company was de-registered by the Financial Conduct Authority as a Small Registered Alternative Fund Manager on 24 March 2020 and responsibility for the custody of the Company's investments passed to YFM Private Equity Limited on that date.

The key features of the agreement are:

- YFM Private Equity Limited receives a Manager's fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;
- The annual Manager's fee payable to the Manager is 1.0 per cent on all surplus cash, defined as all cash above £10 million, unless the Hurdle has been met triggering an incentive payment in which case the amount determined to be surplus will be the excess over £5 million. The annual fee on all other assets is 2.0 per cent of net assets per annum. Based on the Company's net assets at 31 December 2021 of £87,375,000, cash of £21,189,000 at that date, and the incentive payment for the year ended 31 December 2021 being made prior to 30 June 2022 this equates to approximately £1,611,000 per annum;
- YFM Private Equity Limited shall bear the annual operating costs of the Company (including the Manager's fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company; and
- Under the IA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £70,000 for the year ended 31 December 2021 (2020: £69,000).

When the Company makes investments into its unquoted portfolio, the Manager charges that investee an advisory fee. With effect from 1 October 2013, if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over the Company's financial year, this excess will be rebated to the Company. As at 31 December 2021, the Company was due a rebate from the Manager of £nil (2020: £nil).

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

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

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

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

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

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

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

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

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

The details of directors’ remuneration are set out in the Directors’ Remuneration Report on page 50 of the annual report under the heading “Directors’ Remuneration for the year ended 31 December 2021 (audited)”.

## 4. Taxation

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

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

Deferred tax assets of £3,072,000 (2020: £1,198,000) calculated at 25% (2020: 19%) in respect of unrelieved management expenses (£12.29 million as at 31 December 2021 and £6.31 million as at 31 December 2020) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

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

## 5. Dividends

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

	2021			2020		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Interim dividend for the year ended 31 December 2021 of 1.5p (2020: 2.0p) per ordinary share	-	1,934	1,934	189	2,409	2,598
Second interim dividend for the year ended 31 December 2021 of 1.5p (2020: 1.5p per ordinary share)	1,559	544	2,103	20	1,920	1,940
Third interim dividend for the year ended 31 December 2021 of 5.0p per ordinary share	-	6,978	6,978	-	-	-
	1,559	9,456	11,015	209	4,329	4,538
Shares allotted under DRIS			(2,250)			(411)
<b>Dividends paid in Statement of Cash Flows</b>			<b>8,765</b>			<b>4,127</b>

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

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

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

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

## **6. Basic and diluted earnings per share**

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £20,389,000 (2020: £4,251,000) and 138,592,343 (2020: 129,987,842) ordinary shares being the weighted average number of ordinary shares in issue during the year.

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

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

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

The Company has also repurchased 3,553,337 of its own shares in the year, and these shares are held in the capital reserve. The total of 15,929,774 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

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

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

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

**Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise AIM quoted investments and other fixed income securities classified as held at fair value through profit or loss. The Company held no such instruments in the current or prior year.

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

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

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

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

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

## Valuation of Investments

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

Movements in investments at fair value through profit or loss during the year to 31 December 2021 are summarised as follows:

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

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

\*\*Following the merger between the Company and British Smaller Technologies Company VCT plc a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is realised at the point of disposal to the capital reserve. At 31 December 2021 a total of £27,000 (2020: £30,000) was held on investments yet to be realised in the investment holdings gains and losses reserve.

The following disposals took place in the year:

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

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

## 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 £87,375,000 (2020: £70,929,000) and 142,155,199 (2020: 128,956,091) ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 December 2021.

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

## 9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 78.0 pence per ordinary share (2020: 70.0 pence per ordinary share) plus the net asset value as calculated per note 8.

## 10. Financial Commitments

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



## **11. Events after the Balance Sheet Date**

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

## **12. Annual Report and Accounts**

Copies of the statutory accounts for the year ended 31 December 2021 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 December 2021 will be distributed by post or electronically to shareholders and will thereafter be available to members of the public from the Company's registered office.

## **13. Directors**

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

## **14. Annual General Meeting**

The Annual General Meeting of the Company will be held at 12:00 noon on 13 June 2022 at 33 St James Square, London, SW1Y 4JS.

## **15. Interim Dividend for the Year Ending 31 December 2022.**

The directors are pleased to announce the payment of an interim dividend for the year ending 31 December 2022 of 1.5 pence per ordinary share ("Interim Dividend").

The Interim Dividend will be paid on 6 May 2022 to those shareholders on the Company's register at the close of business on 1 April 2022. The ex-dividend date will be 31 March 2022.

The directors are not proposing a final dividend for the year ended 31 December 2021.

## **16. Dividend Re-investment Scheme**

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Interim Dividend is the close of business on 19 April 2022.

## **17. Inside Information**

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

For further information, please contact:

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