British Smaller Companies VCT2 plc

Annual Financial Report Announcement

for the year ended 31 December 2020

British Smaller Companies VCT2 plc (the “Company”) today announces its audited results for the year ended 31 December 2020.

HIGHLIGHTS

- As announced on 28 January 2021, in the year Total Return increased by 3.3 pence to 125.0 pence per ordinary share, an increase of 6.0 per cent over the opening net asset value.
- Two new investments and four follow-on investments totalling £4.0 million were completed during the year. A further two new investments totalling £2.0 million have been completed since the year end.
- Realisations of investments and loan repayments generated total proceeds of £6.1 million in the year, a gain of £1.7 million over the opening carrying value and £4.0 million over cost.
- The underlying growth in the investment portfolio was £5.2 million, an increase of 10.9 per cent.
- Net asset value at 31 December 2020 of 55.0 pence per ordinary share (2019: 55.2 pence per ordinary share).
- Total dividends paid during the year ended 31 December 2020 of 3.5 pence per ordinary share (2019: 8.0 pence per ordinary share).
- Total cumulative dividends paid since inception of 70.0 pence per ordinary share at 31 December 2020 (2019: 66.5 pence per ordinary share).
- The Company’s Offer for Subscription, launched on 2 February 2021, closed on 3 March 2021 raising net proceeds of £6.8 million. 12,756,951 shares in relation to the Offer were allotted on 11 March 2021.

Chairman's Statement

This time last year, in my first Chairman's Statement, the effects of the global pandemic were just emerging in the UK with the initial lockdown announced hours after I reported to you. The priority then was to work closely with the businesses in which your Company had invested, standing ready with capital to support them where needed and conscious that there might be some delay in the conversion of new opportunities. By the half year the portfolio businesses had begun to adjust to the trading environment, for those more directly impacted there was a limited need for capital and whilst many newer opportunities had temporarily suspended their fundraising efforts there were signs that in the second half of the year these would be resumed.

At the end of the year it is pleasing to be able to report that for the period as a whole in aggregate the portfolio has made good progress and that latterly conversion of new investment opportunities has delivered increasing investment rates. The movement in valuations saw a significant fall at the end of March 2020 but by the year end this had been more than recovered with net overall valuation gains across the portfolio delivering a 3.3 pence per ordinary share increase in Total Return, which is equivalent to 6.0 per cent of the opening net asset value at 31 December 2019. Total Return is now 125.0 pence per ordinary share.

Your Company's portfolio delivered a strong performance over the year, generating a return of £5.22 million, 10.9 per cent over its opening value, of which £1.67 million was realised and £3.55 million unrealised. New and follow-on investments totalling £4.00 million were completed and already a further £2.00 million has been invested since the year end.

Realisations in the Year

Realisations of investments and loan repayments generated total proceeds of £6.14 million, a gain of £1.67 million over the opening carrying value and £3.98 million over the original cost. There were two significant realisations in the year: Business Collaborator in March 2020 and RMS in June 2020. The Business Collaborator exit generated capital proceeds of £5.39 million delivering a realised gain of £4.05 million above cost, and an uplift of £1.93 million on the carrying value at the beginning of the year. Including income, the total return from this investment was £6.02 million over a 5.4 year holding period, producing an internal rate of return of 34 per cent.

The £0.56 million proceeds from the sale of the Company's investment in RMS represented a capital profit over cost of £0.49 million, albeit a reduction of £0.05 million on the opening carrying value. The total return from this investment, including income, was £1.05 million over a 12.9 year holding period, and produced an internal rate of return of 16 per cent. There was also a loss of £0.21 million on the exit from Bagel Nash.

New Investments

The last few months have been an active period, with two new investments totalling £3.10 million in the final quarter of the year and a further two new investments totalling £2.0 million since the year end. There were also four follow-on investments totalling £0.90 million during the year. The new investments are:

Investment	Sector
Force24	Cloud-based marketing automation technology
Arraco	Interdealer commodities broker
Vypr	Cloud-based data validation platform
Outpost	Visual effects for film and TV

It is pleasing to see that in January 2021 Matillion raised $100 million to fund the next phase of its growth. The fundraising was led by a new investor Lightspeed Ventures, with the three other US institutional investors all investing further.

Financial Results

During the year your Board paid interim dividends of 3.5 pence per ordinary share in respect of the year ended 31 December 2020, bringing the cumulative dividends paid to 31 December 2020 to 70.0 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 2019	55.2	72,333
Increase in portfolio value	2.8	3,549
Value realised as income	(1.5)	(1,934)
Increase in investments held at fair value	1.3	1,615
Gain on disposal of investments	1.3	1,669
Net underlying increase in portfolio	2.6	3,284
Net income after expenses	0.7	967
Issue/(buy-back) of new shares	-	(1,117)
	3.3	3,134
NAV before the payment of dividends	58.5	75,467
Dividends paid	(3.5)	(4,538)
NAV at 31 December 2020	**55.0**	**70,929**
Cumulative dividends paid	70.0	
Total Return: at 31 December 2020	**125.0**	
at 31 December 2019	121.7	

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 £47.91 million, delivered a return over the year of £5.22 million. Of this increase, the Company received a dividend of £1.93 million which was recorded as income and shown in the net income after expenses.

The current portfolio’s net valuation increased by £3.55 million. Within this there were valuation gains of £10.52 million, largely from the technology and digital sectors, offset by £6.97 million of downward movements mainly in businesses serving the retail, hospitality and travel sectors. As at 31 December 2020 the portfolio is more heavily weighted to the technology and digital sectors which had a value of £36.02 million comprising 73.3 per cent of the total portfolio whereas those serving the retail, hospitality and travel sectors comprised 10.5 per cent with a value of £5.14 million.

As at 31 December 2020 the portfolio comprises 64 per cent of investments made since 2015, compared to 48 per cent at the previous year end.

These more recent investments tend to be younger, investing a higher proportion of earnings for future growth and the instruments used to finance them are also subject to restrictions, including limits on the permitted level of borrowing. When combined with the ongoing realisation of the more mature investments this, over time, continues to change the balance of your Company’s earnings with a higher proportion derived from capital returns and a lower proportion from income. During the year income, excluding the ordinary dividend of £1.93 million received from ACC Aviation, fell to £0.82 million, compared to £1.08 million in the previous financial year and £1.68 million in 2018. This trend is expected to continue as the proportion of new investments continues to grow.

Shareholder Relations

Due to the lockdown restrictions in place in June 2020 and the fact that legislation allowing the Company to hold an electronic general meeting had not been enacted at the time, the format of last year's Annual General Meeting ("AGM") was changed to a "closed door" meeting, which shareholders were not permitted to attend. The relevant legislation has since been enacted but is currently set to expire on 30 March 2021.

This year's AGM includes a resolution that will allow the Company to hold electronic AGM's in the future.

Due to the uncertainty over when lockdown restrictions will be lifted and the fact that it has to hold its AGM before 30 June 2021, the Company has decided that this year's AGM will also be a closed door meeting.

This year's AGM will be held at 12:00 noon on 10 June 2021 at 21 Hanover Square, London, W1S 1JW. 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.

It is planned that this will be followed by an on-line webinar at which the proceedings of the AGM will be discussed.

Dividends

Dividends paid in the year totalled 3.5 pence per ordinary share. These comprised interim dividends of 3.5 pence per ordinary share for the year ended 31 December 2020. Cumulative dividends paid as at 31 December 2020 were 70.0 pence per ordinary share.

An interim dividend for the year ending 31 December 2021 of 1.5 pence per ordinary share was paid on 5 March 2021 to shareholders on the register at 5 February 2021.

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 2020 out of dividends totalling £4.54 million, £0.41 million were re-invested in your Company by way of the DRIS. Due to the market uncertainty surrounding the Covid-19 pandemic, the DRIS was suspended on 20 March 2020 and reinstated on 24 June 2020. This meant that the DRIS was not in place for the interim dividend paid on 12 May 2020.

Following a review of the market, during the year the terms of the DRIS were changed with new shares now issued at the last reported Net Asset Value, as adjusted for any dividends, rather than at a 5 per cent discount. This has been applied to the dividend declared on 27 January 2021, which was paid on 5 March 2021.

Liquidity and Fundraising

At 31 December 2020 the Company's cash reserves of £20.99 million represented 29.6 per cent of net assets. Having assessed its expected cash requirements, notably the anticipated dealflow, dividends, buybacks and operating costs, 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. I am pleased to confirm that the offer was fully subscribed by existing shareholders closing on 3 March 2021, just weeks after its launch. The related allotment of 12,756,951 ordinary shares took place on 11 March 2021 following which your Company received net proceeds of £6.83 million.

Shareholder Relations

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

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

In light of the developing situation regarding Covid-19, we had to change our plans for the Investor Workshop and held a webinar version on 14 December 2020 in conjunction with British Smaller Companies VCT plc. The webinar, which was attended by over 300 shareholders, included presentations from Business Collaborator, a recent exit, and Wooshii, along with presentations by members of the Manager.

Board Composition

Barbara Anderson joined the Board as an independent non-executive director on 1 October 2020. After serving on the Board for many years Bob Pettigrew resigned as a director on 31 December 2020. The Board would like to express their thanks to Bob for his contribution to the Company's development and we wish him well.

Post Balance Sheet Events

As noted above your Company has completed two new investments totalling £2.0 million and successfully raised £7.05 million of new funds.

Outlook

There is what is termed a roadmap in respect of the pandemic which sets out various milestones at which restrictions can continue to be lifted across education, business and social interactions. This in part is being linked to the vaccination program. At the same time adjustments continue to be made as there is a combination of increased clarity and understanding of both the principles and details of the new trading relationship with Europe. Whilst in the short term both the pandemic and transition to the new trading arrangements are having a dampening impact on growth this isn't uniform across the economy. This has been reflected in your Company's portfolio with a significant majority demonstrating trading growth in 2020.

Your Company is very well positioned to provide any additional funding where it is required to the portfolio and having the resources to invest in those businesses that have innovative products and services and operate in sectors where there is future growth is a strong opportunity. I would like to thank all shareholders for their continued support.

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 diversified portfolio which ensures compliance with the VCT guidelines in this regard.

Borrowing

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

Co-investment

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

Asset Mix

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

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. Once approved, further due diligence is carried out. 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 at each Board meeting on compliance with VCT regulations so that the Board can monitor that the Venture Capital Trust status of the Company is maintained and take corrective action if appropriate. Monitoring reports carrying out an independent review of this compliance are received twice a year.

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

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

Performance Incentive

The Manager will receive an amount equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the five dealing days prior to that day, exceeds 120 pence per ordinary share, multiplied by the number of ordinary shares issued and the ordinary shares under option (if any) (the "Hurdle"). Under the terms of the Subscription Rights Agreement, once the Hurdle has been exceeded it is reset at that value going forward, which becomes the new Hurdle. Any subsequent exercise of these rights will only occur once the new Hurdle has been exceeded. The subscription rights are exercisable in the ratio 95:5 between the Manager and Chord Capital Limited. Further details are given in note 3 to the financial statements. As at 31 December 2020 the aggregate of cumulative dividends and the average of the middle-market price per ordinary share on the last five working days of December 2020 was 118.2 pence per ordinary share and therefore no fee is payable in respect of the year ended 31 December 2020. Note 12 below sets out a contingent liability for the performance incentive fee.

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 approximately 46 generalist VCTs as published by the Association of Investment Companies ("the AIC"). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 51 of the annual report.

Total Return with DRIS (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

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

Year of issue	NAV at 31 December 2020	Cumulative dividends paid since fundraising	Total Return to date[1]	Offer price [2]	IRR[3]
	Pence	Pence	Pence	Pence	%
2001	55.0	70.0	125.0	100.0	1.5%
2002	55.0	70.0	125.0	100.0	1.6%
2010	55.0	48.0	103.0	77.3	3.7%
2011	55.0	44.0	99.0	70.3	4.8%
2012	55.0	40.0	95.0	70.5	4.6%
2013	55.0	35.5	90.5	68.0	4.8%
2014	55.0	31.0	86.0	68.0	4.4%
2015	55.0	26.5	81.5	65.0	4.9%
2016	55.0	22.0	77.0	63.0	4.9%
2017	55.0	17.5	72.5	62.2	4.5%
2018	55.0	14.5	69.5	59.4	6.4%
2019	55.0	6.5	61.5	56.3	5.5%

Notes

[1] Total Return to date is cumulative dividends paid plus the 31 December 2020 net asset value in pence per ordinary share.

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

[3] IRR is the unaudited annual rate of return that equates the offer price at the date of the original investment, with the value of subsequent dividends plus the 31 December 2020 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 investment rate of return over 1, 3, 5 and 10 years up to 31 December 2020. The average annual investment rate of return comprises the cumulative dividends paid plus the unaudited NAV at 31 December 2020.

Expenses

Ongoing Charges

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

While the Ongoing Charges percentage has increased by 6.5 per cent, from 2.3 per cent to 2.45 per cent, the increase in the actual ongoing costs was 1.9 per cent. The difference is due to a lower average net asset value in the year, which resulted from the lower portfolio valuations at March, June and September 2020.

	Year to 31 December 2020 (%)	Year to 31 December 2019 (%)
Ongoing Charges figure	**2.45**	2.30

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

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

Further restrictions placed on VCTs are:

Dividends from Cancelled Share Premium

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

The remaining £3.68 million of previously cancelled share premium became distributable on 1 January 2021.

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.

INVESTMENT PERFORMANCE

Portfolio Structure

The charts on page 16 of the annual report show the broad range of the investment portfolio is illustrated with 36 per cent of the portfolio valuation being held for more than five years, whilst 85 per cent is held at cost or above. 25 per cent of the portfolio value is held in loans and preference shares although loans now account for only 13 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.

This year we have refined the sector analyses applied to the portfolio in particular the segmentation of what was previously a single sector, Software, IT and Telecommunications, into a number of sub-sectors. This has also seen some reclassification.

Investment Review

The portfolio delivered a strong performance in the year, with a return of £5.2 million on the opening value of £47.9 million.

Your Residual Portfolio

£49.1 million	Fair value of the portfolio	(2019: £47.9 million)
19	Number of portfolio companies with a value of more than £0.5 million	(2019: 23)
£0.7 million*	Income from the portfolio	(2019: £1.1 million)
£4.0 million	Level of investment	(2019: £11.4 million)
£5.2 million*	Return from portfolio	(2019: £5.2 million)

*excluding ordinary dividend of £1.93 million received from ACC Aviation.

The underlying increase in the portfolio was £5.22 million, as shown in Table A below. Of this increase, the Company received a dividend of £1.93 million from ACC Aviation, which was recorded as income and shown in the net income after expenses. The portfolio delivered a value gain of £3.55 million, with strong performances from Matillion, Springboard, Arcus Global, Unbiased, DisplayPlan, and Deep Secure along with a trading recovery at E2E. Matillion benefited from strong growth and, despite serving the retail sector there was increased demand for retail footfall data which has benefitted Springboard, while Arcus Global successfully exited from its AWS division for a healthy profit.

The uplifts were offset by the impact of challenging trading conditions from those businesses serving the transport, hospitality and retail sectors, notably ACC Aviation, Friska and Tonkotsu, which saw valuation reductions in the early part of the year. While trading has remained at reduced levels there has been no further deterioration in their valuations.

A gain of £1.67 million arose from the realisation of investments in the year, including £1.93 million from the realisation of Business Collaborator Limited, offset by small losses on the exits from RMS and Bagel Nash.

Table A **Investment Portfolio**	**£million**	**%**
Gain in fair value	3.55	68
Gain on disposal over opening value including deferred proceeds	1.67	32
	5.22	**100**
Ordinary dividend received	(1.94)	
Total value movement	**3.28**	

At 31 December 2020 the investment portfolio was valued at £49.12 million, representing 69.2 per cent of net assets (66.2 per cent at 31 December 2019). Cash at 31 December 2020 of £20.99 million represented 29.6 per cent of net assets (33.1 per cent at 31 December 2019).

Other Significant Investment Movements

Investments

During the year ended 31 December 2020 the Company completed six investments totalling £4.00 million. This comprised two new investments of £3.10 million and four follow-on investments of £0.90 million. The analysis of these investments is shown in Table B. The case study on page 23 of the annual report gives more information on the investment in Arraco.

Table B			
	Investments made £million		
Company	**New**	**Follow-on**	**Total**
Force24	1.60	-	1.60
Arraco	1.50	-	1.50
Elucidat	-	0.40	0.40
Other follow-on investments	-	0.50	0.50
Invested in the year	3.10	0.90	4.00
Capitalised income			0.06
Total additions in the year			**4.06**

Following the year end two new investments totalling £2.00 million have been completed.

Disposal of Investments

During the year to 31 December 2020 the Company received proceeds from disposals and repayments of loans of £6.14 million. This included the very successful realisation of Business Collaborator which produced capital proceeds of £5.39 million against realised cost of £1.34 million, delivering a realised gain of £4.05 million of which £1.93 million was recognised in the year. The investment in Business Collaborator was held at a valuation of £3.46 million at the beginning of the financial year. The total return (including income) from this investment of £6.02 million was delivered over a 5.4 year holding period producing an internal rate of return of 34 per cent.

Table C **Disposal of Investments**	**Net proceeds from sale of investments £million**	**Opening value 31 December 2019 £million**	**Gain on opening value £million**
Total investment disposals	**6.14**	**4.47**	**1.67**

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

Portfolio Composition

As at 31 December 2020 the portfolio had a value of £49.12 million comprising wholly of unquoted investments. An analysis of the movements in the year is shown in note 7 below.

The portfolio has 19 investments having a value greater than £0.5 million, compared to 23 a year earlier, with the single largest investment, Matillion representing 17.9 per cent of the net asset value. The case study on page 23 of the annual report gives more information on the investment in Matillion.

The charts on pages 16 and 17 of the annual report show the composition of the portfolio as at 31 December 2020 by industry sector, age of investment, investment instrument and the valuation compared to cost. This demonstrates representation across a wide range of industry sectors.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1 on pages 66 and 67 of the annual report which takes account of current industry guidelines for the valuation of venture capital portfolios. The December 2018 update to the IPEVC Guidelines discourages the use of cost or price of a recent investment as a primary basis for valuation. As a result the policy is to use the recent round basis for the first quarter date immediately following the round, but then switch to a new primary basis for all subsequent periods. This change has in fact had little impact on the portfolio's valuation as we have calibrated the valuation basis used to the recent investment round. We would only expect significant adjustments to recent investment values where an investment is significantly under- or over-performing. In addition to the December 2018 update of the Guidelines the Company has followed the IPEVC's Special Valuation Guidance issued in March 2020 in response to the impact of the coronavirus pandemic.

As at 31 December 2020 the value of investments falling into each valuation category is shown in Table D.

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

Table D Valuation Policy	**2020 Valuation £million**	**2020 % of portfolio by value**	2019 % of portfolio by value
Revenue multiple	29.31	60	43
Earnings multiple	14.17	29	42
Cost or price of recent investment, reviewed for change in fair value	3.33	7	10
Net assets, reviewed for change in fair value	2.31	4	5
Total	**49.12**	**100**	**100**

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

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

In order to deliver more sustainable businesses the Manager has continued to develop its processes in this area, including signing up to the United Nations' Principles for Responsible Investment (UNPRI). The Manager's approach is based on the belief that good businesses can:

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

In line with the UNPRI 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 at the point of investment as a benchmark against which to evaluate future progress.

Portfolio Phase

For those investments made in 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 can then be measured and recorded, 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.

ESG performance data and reporting

ESG KPI data analysis

The Manager has developed its ESG KPI data collation process during 2020. 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 intends to move 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 reporting to investors it will be used as an engagement tool with the senior management teams of each company.

2020 ESG KPI report

Growing our economy

- £10.0 million of R&D investment during 2020
- £34.3 million of export sales achieved in 2020

Improving our society

- 90 per cent of companies were independently chaired in 2020
- 30 per cent of companies had female directors on boards, with 18 per cent having a female CEO

Valuing our people

- 30 per cent of the portfolio workforce was female in 2020
- All bar one of our companies paid all their staff above the National Living Wage/Minimum Wage in 2020
- 301 new jobs were created from date of investment to 2020

Protecting our environment

- 50 per cent of companies had active carbon reduction strategies
- 30 per cent of companies had active carbon reduction strategies, up from 15 per cent at investment, but only 10 per cent formally measure their carbon footprint

Summary and Outlook

While the Covid-19 pandemic impacted our activity during the year it was pleasing that we successfully exited Business Collaborator and the investment in RMS in the first half, followed by two new investments in the final quarter of 2020 and a further two investments in the first quarter of 2021.

We have continued to invest in our investment team, with five new starters in the year, and there continues to be a strong inflow of investment opportunities as well as the potential to further invest in the portfolio. Eventual clarity on all aspects of the new trading relationship with Europe and the outline of a plan to remove restrictions on movement and the economy may well serve to further enhance these opportunities.

David Hall
YFM Private Equity Limited

Portfolio Summary at 31 December 2020

Name of company	Date of initial investment	Location	Industry Sector	Current cost	Valuation at 31 December 2020	Proceeds to date	Realised & unrealised value to date*
				£000	£000	£000	£000
Unquoted portfolio							
Matillion Limited	Nov-16	Manchester	Data & Analytics	1,778	12,695	-	12,695
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,156	-	3,156
ACC Aviation Group Limited**	Nov-14	Reigate	Business Services	145	2,993	1,233	4,226
Springboard Research Holdings Limited	Oct-14	Milton Keynes	Data & Analytics	1,822	2,678	120	2,798
KeTech Enterprises Limited	Nov-15	Nottingham	Data & Analytics	1,500	2,601	500	3,101
Unbiased EC1 Limited	Dec-19	London	Software Applications	1,964	2,512	-	2,512
Investment companies	Apr-15	-	-	2,500	2,309	-	2,309
Arcus Global Limited	May-18	Cambridge	Software Applications	1,950	2,160	-	2,160
Elucidat Ltd	May-19	Brighton	Software Applications	1,800	2,031	-	2,031
Deep-Secure Ltd	Dec-09	Malvern	Software Applications	500	1,966	-	1,966
Force24 Ltd	Nov-20	Leeds	Software Applications	1,600	1,600	-	1,600
Wooshii Limited	May-19	London	New Media	1,440	1,566	-	1,566
SharpCloud Software Limited	Oct-19	London	Data & Analytics	1,460	1,544	-	1,544
Arraco Global Markets Limited	Dec-20	London	Business Services	1,500	1,500	-	1,500
Ncam Technologies Limited	Mar-18	London	New Media	1,588	1,476	-	1,476
DisplayPlan Holdings Limited	Jan-12	Baldock	New Media	70	1,267	820	2,087
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Hampshire	Software Applications	1,309	1,113	-	1,113
Panintelligence (via Paninsight Limited)	Nov-19	Leeds	Data & Analytics	1,000	1,000	-	1,000
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software Applications	1,163	808	-	808
Tonkotsu Limited	Jun-19	London	Retail & Brands	1,592	605	-	605
Other investments below £0.5 million				11,254	1,535	5,400	6,935
Total unquoted investments				**39,891**	**49,115**	**8,073**	**57,188**
Full disposals to date				35,937	-	52,001	52,001
Total investment portfolio				**75,828**	**49,115**	**60,074**	**109,189**

* represents proceeds received to date plus the unrealised valuation at 31 December 2020.

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

Summary of Portfolio Movement since 31 December 2019

Name of Company	Investment valuation at 31 December 2019 £000	Disposal proceeds £000	Ordinary dividends received £000	Additions including capitalised dividends £000	Valuation gains including profits / (losses) on disposal £000	Investment valuation at 31 December 2020 £000
Matillion Limited	6,491	-	-	-	6,204	12,695
Arcus Global Limited	1,249	-	-	-	911	2,160
Unbiased EC1 Limited	1,964	-	-	-	548	2,512
Elucidat Limited	1,524	-	-	400	107	2,031
Wooshii Limited	1,459	-	-	-	107	1,566
SharpCloud Software Limited	1,460	-	-	-	84	1,544
Ncam Technologies Limited	1,196	-	-	247	33	1,476
Force24 Ltd	-	-	-	1,600	-	1,600
Arraco Global Markets Limited	-	-	-	1,500	-	1,500
Panintelligence (via Paninsight Limited)	1,000	-	-	-	-	1,000
Sipsynergy (via Hosted Network Services Ltd)	1,134	-	-	-	(21)	1,113
Other investments £0.5 million and below	500	-	-	50	(116)	434
Traveltek Group Holdings Limited	1,068	-	-	-	(260)	808
Frescobol Carioca Ltd	594	-	-	-	(268)	326
Biz2Mobile Limited	774	-	-	-	(665)	109
Tonkotsu Limited	1,728	-	-	-	(1,123)	605
Friska Limited	1,082	-	-	200	(1,282)	-
Investments made after November 2015	23,223	-	-	3,997	4,259	31,479
Business Collaborator Limited	3,458	(5,390)	-	-	1,932	-
Springboard Research Holdings Limited	1,747	(120)	-	59	992	2,678
DisplayPlan Holdings Limited	800	-	-	-	467	1,267
Deep-Secure Ltd	1,558	-	-	-	408	1,966
KeTech Enterprises Limited	2,486	-	-	-	115	2,601
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	3,205	-	-	-	(49)	3,156
RMS Group Holdings Limited	611	(562)	-	-	(49)	-
Wakefield Acoustics (via Malvar Engineering Limited)	648	-	-	-	(216)	432
Other investments £0.5 million and below	3,571	(66)	-	-	(962)	2,543
ACC Aviation Group Limited	6,606	-	(1,934)	-	(1,679)	2,993
Investments made prior to November 2015	24,690	(6,138)	(1,934)	59	959	17,636
Total investments	**47,913**	**(6,138)**	**(1,934)**	**4,056**	**5,218**	**49,115**

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 occurrence of the coronavirus pandemic has created heightened uncertainty, but has not 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 applies rigorously 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 is given in note 17a of the financial statements.

Loss of Approval as a VCT

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

Mitigation - One of the Key Performance Indicators monitored by the Company is the compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading “Compliance with VCT Legislative Tests” 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 ‘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 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. The Manager has continuously monitored the impact of Brexit and the Covid-19 pandemic and provides support as necessary.

Investment and Strategic

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

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

Regulatory

Risk – The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, the Prospectus Rules made by the Financial Conduct Authority and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the EU and is 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 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 and 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. When the covid-19 pandemic struck the Manager and other service providers implemented their business continuity plans with no loss of service.

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

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

Other Matters

Section 172 Statement

This section sets out your Company's Section 172 Statement and should be read in conjunction with the other contents of the Strategic Report on pages 6 to 36 of the annual report.

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

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

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

Key Stakeholders

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.

Due to the large fall in the stock market indices in March 2020 the Company issued an updated NAV as at 25 March 2020, giving shareholders an up-to-date net asset value per ordinary share at a time of market volatility.

The Company encourages shareholders to attend its Annual General Meeting (AGM), but unfortunately the 2020 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 are not yet permitted by the Company's Articles of Association and the legislation permitting electronic general meetings had not been passed at the time. The directors have included a resolution at this year's 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 2020 AGM, it was not possible to hold this in its normal format so an on-line workshop was held in December 2020, which was attended by over 300 shareholders. The Manager also carries out regular shareholder surveys.

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.

After carefully considering its funding needs the Company announced a non-prospectus offer to raise up to £7.05 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.

During the year the Board kept its arrangements for dividends, share buy-backs and the dividend re-investment scheme under constant review. Due to the market volatility brought about by the Covid-19 pandemic the Company suspended its share buy-back and dividend re-investment policies on 20 March 2020 and these were subsequently reinstated on 24 June 2020. In addition, on 25 November 2020 the Company announced that, following a review of market practice, it would be writing to shareholders giving notice that new shares issued under the dividend re-investment scheme would in future be issued at the last reported net asset value per share.

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 and 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 portfolio businesses quickly adapted to the impact of the Covid-19 pandemic and 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.

Deal flow was disrupted for most of the year but two new investments were made in the final quarter and a further two new investments were made in the early part of 2021. The Company continued to realise its more mature investments, completing its exit from Business Collaborator in March 2020 and RMS in June 2020.

Employees

The Company has no employees. Following the appointment of Ms B L Anderson as a non-executive director on 1 October 2020 the Board was 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 in 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 above. Its Sustainable Investment Policy can be found at www.yfmep.com/who-we-are/our_impact/.

Business Conduct

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

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

Peter Waller
Chairman

Statement of Comprehensive Income
For the year ended 31 December 2020

		2020			2019		
	Notes	**Revenue £000**	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	**-**	**1,669**	**1,669**	-	2,868	2,868
Gains on investments held at fair value	7	**-**	**1,615**	**1,615**	-	2,323	2,323
Gain arising from the portfolio		**-**	**3,284**	**3,284**	-	5,191	5,191
Income	2	**2,752**	**-**	**2,752**	1,076	-	1,076
Total income		**2,752**	**3,284**	**6,036**	1,076	5,191	6,267
Administrative expenses:							
Manager's fee		**(301)**	**(903)**	**(1,204)**	(297)	(892)	(1,189)
Other expenses		**(581)**	**-**	**(581)**	(542)	-	(542)
	3	**(882)**	**(903)**	**(1,785)**	(839)	(892)	(1,731)
Profit before taxation		**1,870**	**2,381**	**4,251**	237	4,299	4,536
Taxation	4	**-**	**-**	**-**	-	-	-
Profit for the year		**1,870**	**2,381**	**4,251**	237	4,299	4,536
Total comprehensive income for the year		**1,870**	**2,381**	**4,251**	237	4,299	4,536
Basic and diluted earnings per ordinary share	6	**1.44p**	**1.83p**	**3.27p**	0.19p	3.41p	3.60p

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

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the EU. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in October 2019 – "SORP") published by the AIC.

Balance Sheet
At 31 December 2020

	Notes	2020 £000	2019 £000
Assets			
Non-current assets at fair value through profit or loss			
Financial assets at fair value through profit or loss	7	**49,115**	47,913
Accrued income and other assets		**444**	488
		49,559	48,401
Current assets			
Accrued income and other assets		**511**	166
Current asset investments		**1,988**	1,988
Cash and cash equivalents		**19,002**	21,944
		21,501	24,098
Liabilities			
Current liabilities			
Trade and other payables		**(131)**	(166)
Net current assets		**21,370**	23,932
Net assets		**70,929**	72,333
Shareholders' equity			
Share capital		**14,133**	14,041
Share premium account		**16,735**	16,436
Capital redemption reserve		**88**	88
Other reserves		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**22,461**	25,223
Investment holding gains and losses reserve	7	**9,254**	9,948
Revenue reserve		**2,731**	1,070
Total shareholders' equity		**70,929**	72,333
Net asset value per ordinary share	8	**55.0p**	55.2p

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 12 March 2021.

Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains and losses reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2018	**11,318**	**4,351**	**5,615**	**33,694**	**7,335**	**1,741**	**64,054**
Revenue return for the year	-	-	-	-	-	*237*	*237*
Realised capital return	-	-	-	*(892)*	-	-	*(892)*
Investment holding gain on investments held at fair value	-	-	-	-	*2,323*	-	*2,323*
Realisation of investments in the year	-	-	-	*2,868*	-	-	*2,868*
Total comprehensive income for the year	-	-	-	1,976	2,323	237	4,536
Issue of share capital	*2,320*	*10,960*	-	-	-	-	*13,280*
*Issue costs *****	-	*(496)*	-	*(135)*	-	-	*(631)*
Purchase of own shares	-	-	-	*(1,631)*	-	-	*(1,631)*
Issue of shares – DRIS	*403*	*1,621*	-	-	-	-	*2,024*
Dividends	-	-	-	*(8,391)*	-	*(908)*	*(9,299)*
Total transactions with owners	2,723	12,085	-	(10,157)	-	(908)	3,743
Realisation of prior year investment holding losses	-	-	-	(290)	290	-	-
Balance at 31 December 2019	**14,041**	**16,436**	**5,615**	**25,223**	**9,948**	**1,070**	**72,333**
Revenue return for the year	-	-	-	-	-	*1,870*	*1,870*
Realised capital return	-	-	-	*(903)*	-	-	*(903)*
Investment holding gain on investments held at fair value	-	-	-	-	*1,615*	-	*1,615*
Realisation of investments in the year	-	-	-	*1,669*	-	-	*1,669*
Total comprehensive income for the year	-	-	-	766	1,615	1,870	4,251
*Issue costs *****	-	*(20)*	-	-	-	-	*(20)*
Purchase of own shares	-	-	-	*(1,508)*	-	-	*(1,508)*
Issue of shares – DRIS	*92*	*319*	-	-	-	-	*411*
Dividends	-	-	-	*(4,329)*	-	*(209)*	*(4,538)*
Total transactions with owners	92	299	-	(5,837)	-	(209)	(5,655)
Realisation of prior year investment holding gains	-	-	-	2,309	(2,309)	-	-
Balance at 31 December 2020	**14,133**	**16,735**	**5,615**	**22,461**	**9,254**	**2,731**	**70,929**

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

Reserves available for distribution

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

	Capital reserve	Revenue reserve	Total
	£000	**£000**	**£000**
Distributable reserves as shown above	22,461	2,731	25,192
Less : income not yet distributable	-	(851)	(851)
Reserves available for distribution* **	**22,461**	**1,880**	**24,341**

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

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

*** Subject to filing these financial statements at Companies House.

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 £25,192,000 representing a decrease of £1,101,000 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 £25,192,000 shown above, £851,000 relates to income not yet distributable. The final £3,677,000 of previously cancelled share premium became distributable on 1 January 2021.

Statement of Cash Flows
For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Net cash inflow (outflow) from operating activities		**938**	(582)
Cash flows generated from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(3,997)**	(11,413)
Proceeds from sale of financial assets at fair value through profit or loss	7	**5,772**	6,835
Deferred consideration	7	**-**	246
Net cash inflow (outflow) from investing activities		**1,775**	(4,332)
Cash flows from financing activities			
Issue of ordinary shares		**-**	13,280
Costs of ordinary share issues*		**(20)**	(631)
Purchase of own ordinary shares		**(1,508)**	(1,631)
Dividends paid	5	**(4,127)**	(7,275)
Net cash (outflow) inflow from financing activities		**(5,655)**	3,743
Net decrease in cash and cash equivalents		**(2,942)**	(1,171)
Cash and cash equivalents at the beginning of the year		**21,944**	23,115
Cash and cash equivalents at the end of the year	9	**19,002**	21,944

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

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

	2020 £000	2019 £000
Profit before taxation	**4,251**	4,536
Decrease in trade and other payables	**(35)**	(4)
Decrease in accrued income and other assets	**65**	136
Gain on disposal of investments	**(1,669)**	(2,868)
Gains on investments held at fair value	**(1,615)**	(2,323)
Capitalised income	**(59)**	(59)
Net cash inflow (outflow) from operating activities	**938**	(582)

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

Notes to the Financial Statements

1. Principal Accounting Policies

Basis of Preparation

The accounts have been prepared on a going concern basis and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. 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 October 2019 – "SORP") to the extent that they do not conflict with IFRSs as adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the EU.

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

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

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

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

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

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

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

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

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

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

Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 "Fair Value Measurement" and using the International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines ("the Guidelines") updated in December 2018 and March 2020. A detailed explanation of the valuation policies of the Company is included below.

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

> **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 IPEVC Guidelines the Price of Recent Investment will usually only be used for the initial period following the round and after this an alternative basis will be found.

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

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

Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. The Company does not hold any quoted investments at 31 December 2020.

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. The incentive fee payable to the Manager (as set out in note 3) is charged wholly through the Capital column.

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

Cash and Cash Equivalents

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

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

Cash flows classified as "operating activities" for the purposes of the Statement of Cash Flows are those arising from the Revenue column of the Income Statement, together with the items in the Capital column that do not fall to be easily classified under the headings for "Investing Activities" given by IAS 7 'Statement of cash flows', being advisory and incentive fees payable to the 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 advisory fee expense as detailed in the Capital Reserve above.

Taxation

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

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

Dividends Payable

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

Segmental Reporting

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

Critical Accounting Estimates and Judgements

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

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

	2020	2019
	£000	£000
Dividends from unquoted companies*	**2,237**	325
Dividends from AIM quoted companies	**-**	6
Interest on loans to unquoted companies	**391**	526
Income from investments held at fair value through profit or loss	**2,628**	857
Interest on bank deposits	**124**	219
	2,752	1,076

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

3. Administrative Expenses

	2020	2019
	£000	£000
Manager's fee	**1,204**	1,189
Administration fee	**69**	68
Total payable to YFM Private Equity Limited	**1,273**	1,257
Other expenses:		
Directors' remuneration	**105**	102
General expenses	**71**	66
Trail commission	**60**	92
Listing and registrar fees	**56**	56
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	**35**	32
Printing	**33**	32
Irrecoverable VAT	**30**	29
	1,663	1,666
Fair value movement related to credit risk	**122**	65
	1,785	1,731
Ongoing charges figure	**2.45%**	2.30%

Directors' remuneration comprises only short term benefits including social security contributions of £9,000 (2019: £9,000).

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

No fees are payable to the auditor in respect of other services (2019: £nil).

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 "IAA"). 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;
- with effect from 1 January 2019 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 2020 of £70,929,000 and cash of £20,990,000 at that date, this equates to £1,309,000 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 IAA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £69,000 for the year ended 31 December 2020 (2019: £68,000).

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 2020, the Company was due a rebate from the Manager of £nil (2019: £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 IAA in the year was £1,273,000 (2019: £1,257,000).

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2020 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £464,000 (2019: £658,000).

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

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

As at 31 December 2020 the total of cumulative cash dividends paid and mid-market price was 118.20 pence per ordinary share. Consequently the Hurdle has not been exceeded and no performance related incentive is payable. Note 12 sets out a contingent liability for the performance incentive fee.

If the IAA 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 28 November 2018, YFM Private Equity Limited was entitled to 4.5 per cent of gross subscriptions from execution brokers and 2.5 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £411,000.

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.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 50 under the heading "Directors' Remuneration for the year ended 31 December 2020 (audited)".

4. Taxation

	2020			2019		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit before taxation	**1,870**	**2,381**	**4,251**	237	4,299	4,536
Profit before taxation multiplied by standard rate of corporation tax in UK of 19% (2019 :19%)	**355**	**453**	**808**	45	817	862
Effect of:						
UK dividends received	**(412)**	**-**	**(412)**	(65)	-	(65)
Non-taxable profits on investments	**-**	**(624)**	**(624)**	-	(986)	(986)
Deferred tax not recognised	**57**	**171**	**228**	20	169	189
Tax charge	**-**	**-**	**-**	-	-	-

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

Deferred tax assets of £1,198,000 (2019: £851,000) calculated at 19% (2019: 17%) in respect of unrelieved management expenses (£6.31 million as at 31 December 2020 and £5.01 million as at 31 December 2019) 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:

	2020			2019		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Interim dividend for the year ended 31 December 2020 of 2.0p (2019: 1.5p) per ordinary share	**189**	**2,409**	**2,598**	45	1,928	1,973
Second interim dividend for the year ended 31 December 2020 of 1.5p (2019: 5.0 per ordinary share)	**20**	**1,920**	**1,940**	78	5,273	5,351
Final dividend for the year ended 31 December 2018 of 1.5p per ordinary share	**-**	**-**	**-**	785	1,190	1,975
	209	**4,329**	**4,538**	908	8,391	9,299
Shares allotted under DRIS			**(411)**			(2,024)
Dividends paid in Statement of Cash Flows			**4,127**			7,275

The first interim dividend of 2.0 pence per ordinary share was paid on 12 May 2020 to shareholders on the register as at 24 April 2020.

The second interim dividend of 1.5 pence per ordinary share was paid on 21 September 2020 to shareholders on the register as at 21 August 2020.

An interim dividend of 1.5 pence per ordinary share in respect of the year ending 31 December 2021 was paid on 5 March 2021. This dividend was not recognised in the year ended 31 December 2020 as the obligation did not exist at the balance sheet date.

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £4,251,000 (2019: £4,536,000) and 129,987,842 (2019: 125,967,837) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings per ordinary share is based on the revenue profit for the year attributable to shareholders of £1,870,000 (2019: £237,000) and 129,987,842 (2019: 125,967,837) 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 £2,381,000 (2019: £4,299,000) and 129,987,842 (2019: 125,967,837) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 922,890 new ordinary shares in respect of its DRIS.

The Company has also repurchased 3,067,345 of its own shares in the year, and these shares are held in the capital reserve. The total of 12,376,437 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 2020 and 31 December 2019.

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

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

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

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

Level 3: the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. All of the Company's investments fall into this category at 31 December 2020.

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 the 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 2020 are summarised as follows:

IFRS 13 measurement classification	Level 3
	Unquoted Investments £000
Opening cost	37,995
Opening investment holding gain	9,918
Opening fair value at 1 January 2020	**47,913**
Additions at cost	3,997
Capitalised income	59
Disposal proceeds	(6,138)
Net profit on disposal	1,669
Change in fair value	1,615
Closing fair value at 31 December 2020	**49,115**
Closing cost	39,891
Closing investment holding gain*	9,224
Closing fair value at 31 December 2020	**49,115**

*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 2020 a total of £30,000 (2019: £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 2020	Profit (loss) on disposal
	£000	£000	£000	£000
Unquoted investments:				
Bagel Nash Group Limited	66	630	280	(214)
Business Collaborator Limited	5,390	1,340	3,458	1,932
RMS Group Holdings Limited	562	70	611	(49)
Springboard Research Holdings Limited	120	120	120	-
Total from unquoted investments	**6,138**	**2,160**	**4,469**	**1,669**

* The total from disposals in the year in the table above is £6,138,000 whereas that shown in the Statement of Cash Flows is £5,772,000. The difference comprises proceeds of £366,000 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 £70,929,000 (2019: £72,333,000) and 128,956,091 (2019: 131,100,546) 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 2020.

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 2020 and 31 December 2019.

9. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 70.0 pence per ordinary share (2019: 66.5 pence per ordinary share) plus the net asset value as calculated per note 8.

10. Financial Commitments

There are no financial commitments at 31 December 2020 or 31 December 2019.

11. Events after the Balance Sheet Date

The company has made two new investments totalling £2.00 million. The Company has also raised £7.05 million from existing and new shareholders.

12. Contingent Liabilities

Under the terms of the Subscription Rights Agreement, as set out above, the Manager and Chord Capital are entitled to a performance-related incentive fee if the cumulative dividends per ordinary share paid as at the last business day of December in any year, plus the average of the middle market price per ordinary share of the five dealing days prior to that day, exceeds a Hurdle of 120 pence per ordinary share. The value of the incentive fee is 20 per cent of the excess to the Hurdle, multiplied by the number of ordinary shares issued. There has never been an incentive fee payment under this scheme and there was no payment for the year to 31 December 2020, as the shortfall to the Hurdle was 1.8 pence per ordinary share. However, the net assets per ordinary share have increased by 4.5 pence per ordinary share as at 31 December 2020. If this increase flows through to an increase in the middle market price per ordinary share in the last five dealing days prior to the last business day of December 2021, at a discount of 5 per cent to the net asset value per ordinary share, then an incentive fee of approximately £580,000 would be payable at 31 December 2021 based on the number of shares in issue at 31 December 2020.

13. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2020 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 www.bscfunds.com. Hard copies of the statutory accounts for the year to 31 December 2020 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.

14. Directors

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

15. Annual General Meeting

The Annual General Meeting of the Company will be held at 12:00 noon on 10 June 2021 at 21 Hanover Square, London, W1S 1JW.

16. 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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