

British Smaller Companies VCT2 plc

Annual Report for the year ended
31 December 2012



About Us

British Smaller Companies VCT2 plc was formed in 2000 and invests in a combination of mature businesses operating in traditional industries and emerging businesses offering opportunities in the application and development of innovation.

A diverse existing portfolio of 30 investments reduces the exposure to particular markets and individual companies. To date the Company has in total realised 26 investments generating total proceeds of £18.2 million compared to a cost of £11.2 million. The current investment portfolio has an audited valuation of £11.4 million as at 31 December 2012.

VCT2 plc who are higher and additional rate tax payers do not have to pay income tax on the cash dividend they receive from the Company.

Share Buy-Backs

At a Shareholder meeting on 30 August 2011 Shareholders voted in favour of re-introducing a buy-back policy and the rate of discount to Net Asset Value at which ordinary shares are bought back has been set at no more than 15 per cent. Following a review of the policy, the Board is pleased to advise that, as of 2 April 2013, the rate of discount at which ordinary shares will be bought back will be reduced to no more than 10 per cent.

This enables Shareholders to obtain some liquidity in an otherwise illiquid market where there is a need to dispose of stock. This policy is kept under active review to ensure that any decisions taken are in the interests of Shareholders as a whole.

Dividend Re-Investment Scheme (DRIS)

The Company operates a dividend re-investment scheme which gives Shareholders the opportunity to re-invest any cash dividends. Currently dividends are re-invested at a five per cent discount to the latest half year or year end Net Asset Value. In the interests of Shareholders this discount will be applied instead to the latest reported Net Asset Value, with effect from and commencing with the final dividend proposed to be paid in June 2013. Any dividends that are re-invested by Qualifying Shareholders are eligible for income tax relief at 30 per cent of the amount invested subject to an annual investment limit of £200,000.

Fund Manager

British Smaller Companies VCT2 plc ("the Company") is managed by YFM Private Equity Limited ("the Fund Manager") which is a wholly owned subsidiary of YFM Equity Partners Limited and is authorised and regulated by the Financial Services Authority. YFM Equity Partners Limited is part of the GLE Group of Companies.

least 70 per cent by value of its holdings must be in qualifying holdings. The maximum value of any single investment is 15 per cent. Although the majority of investments will be in equities normally, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

Further details of the Company's investment policy can be found in the Directors' Report on page 37.

Investment Policy

The investment policy of the Company is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.

The Company will invest in UK businesses across a broad range of sectors including but not limited to Industrial, Telecommunications, Software and IT, Healthcare, Retail and Consumer Products in VCT qualifying and non-qualifying unquoted and AIM quoted securities. The legislation governing VCTs requires that at

Dividend Policy

Your Board remains committed to achieving the objective of a consistent dividend stream where possible, but this depends upon both the level of realisations and investment income that the Company is able to make in any one period and cannot be guaranteed.

The tax free nature of a VCT is of particular benefit for Qualifying Shareholders as there is no income tax payable on the dividend received, or need to declare them in a tax return. This means that Qualifying Shareholders in British Smaller Companies

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Financial Highlights

2.2%

Net Asset Value

During the year the Net Asset Value has increased by 2.2 per cent per ordinary share prior to the payment of dividends totalling 4.5 pence per ordinary share.

10.3%

Investment Returns

The Company's investment portfolio has increased in value by 10.3 per cent over the year.

4.5p

Dividends for the Year

Dividends paid during the year total 4.5 pence per ordinary share. The Board has proposed an increased final dividend of 2.5 pence per ordinary share. The average dividend over the five years ended 31 December 2012 is 4.8 pence per ordinary share; representing a yield of 8.2 per cent on the share price at 31 December 2012.

34.5p

Cumulative Dividends Paid

Cumulative dividends paid since the Company's inception have increased in the year to 34.5 pence per ordinary share from 30.0 pence per ordinary share.

100.0p

Total Return

The Company's Total Return has increased by 1.5 pence per ordinary share over the year and now stands at 100.0 pence per ordinary share. This compares to an after income tax cost of 80.0 pence per ordinary share for those investors subscribing at the Company's launch.

Financial Calendar

Results Announced	2 April 2013
Ex-Dividend Date	1 May 2013
Record Date	3 May 2013
Annual General Meeting	20 May 2013
DRIS Election Date	21 May 2013
Dividend Paid	5 June 2013

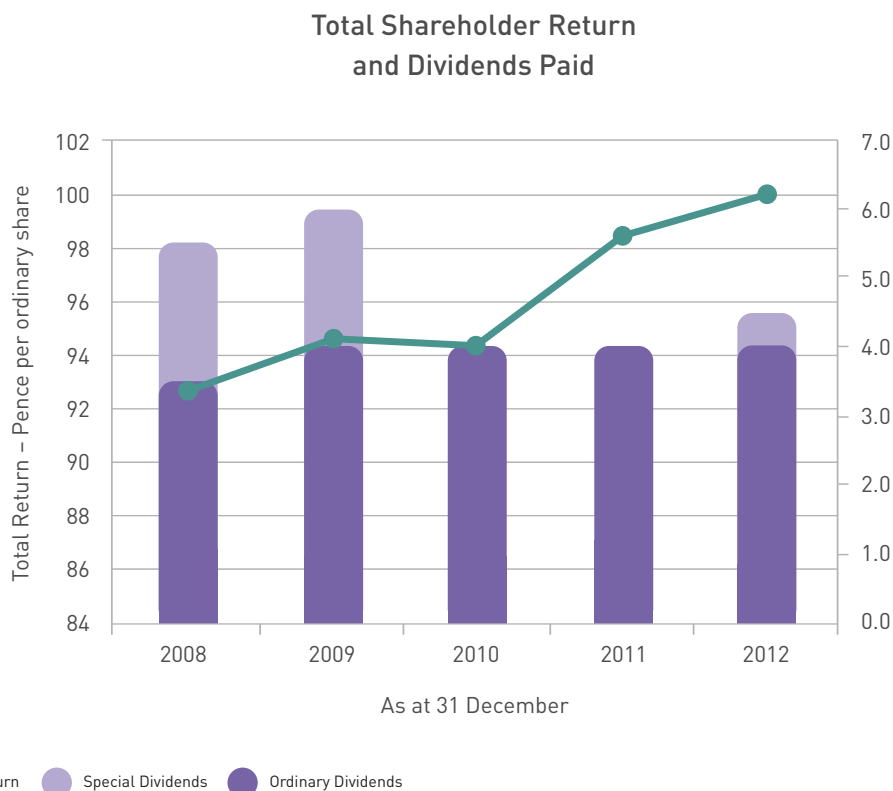
Financial Summary

Five Year Summary

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008
Income	£594,000	£349,000	£321,000	£372,000	£394,000
Profit (loss) before and after tax	£852,000	£1,040,000	(£103,000)	£310,000	£558,000
Earnings (loss) per ordinary share	2.39p	4.75p	(0.59)p	1.86p	3.35p
Cumulative dividend paid	34.5p	30.0p	26.0p	22.0p	16.0p
Net assets	£27,152,000	£15,982,000	£11,829,000	£12,106,000	£12,794,000
Total Return per ordinary share	100.0p	98.5p	94.4p	94.7p	92.9p

Total Shareholder Return and Dividend History

The chart below shows how the Total Return of your Company, calculated by reference to the Net Asset Value per ordinary share plus cumulative dividends paid per ordinary share, has developed over the last five years.



4.5
pence
yearly
dividend

100.0
pence
Total Return

Summary of Dividends by Revenue and Capital

34.5 pence

Dividends paid since inception to 31 December 2012



■ Capital –27.4 pence
■ Revenue –7.1 pence

Total Return by Fundraising Round

The table below shows the Total Return on each fundraising round per ordinary share.

	Offer Price	Offer Price Net of Initial Tax Relief	Net Asset Value as at 31 December 2012	Cumulative dividends paid since fundraising*	Total Return since fundraising	Total Return since fundraising with participation in the DRIS **
	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02 Tax Year	100.00	80.00	65.50	34.50	100.00	108.22
2001/02 and 2002/03 Tax Year	100.00	80.00	65.50	34.50	100.00	108.22
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	49.00	44.97	22.76	67.73	71.78***
2009/10 and 2010/11 Tax Year	77.25	54.08	65.50	12.50	78.00	79.05
2010/11 and 2011/12 Tax Year	70.25	49.18	65.50	8.50	74.00	74.44
2011/2012 and 2012/2013 Tax Year	70.50	49.35	65.50	4.50	70.00	70.08

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total Return is equivalent to £3,247 if the Shareholder had opted to participate in the Company's dividend re-investment scheme since the Company's inception. The table also shows £3,000 invested originally by a British Smaller Technology Companies VCT plc shareholder. Total Return is equivalent to £2,153 if the shareholder had opted to participate in the Company's dividend re-investment scheme since the Company's inception.

	Offer Price	Offer Price Net of Tax	Net Asset Value as at 31 December 2012	Cumulative dividends paid since fundraising*	Total Return since fundraising*	Total Return since fundraising with participation in the DRIS *&**
	£	£	£	£	£	£
2000/01 and 2001/02 Tax Year	3,000	2,400	1,965	1,035	3,000	3,247
Original investment in BSTC 2000/01 Tax Year	3,000	2,400	1,349	683	2,032	2,153***

* This assumes that at the time of investment the tax relief given on the investment was not invested in shares of the Company.

** Assuming that all dividends since inception were invested under the Company's dividend re-investment scheme.

*** The Total Return since fund raising with participation in the DRIS for shares acquired by virtue of the acquisition of British Smaller Technology Companies VCT plc has been calculated on the basis of dividends paid being re-invested only from the point of acquisition.



I am pleased to report an increase in Net Asset Value per ordinary share of 1.5 pence in the year to December 2012 prior to the payment of dividends totalling 4.5 pence per ordinary share which includes a special dividend of 0.5 pence per ordinary share. This is another solid performance against the backdrop of ongoing economic challenges and represents a 2.2 per cent increase on the opening Net Asset Value for the year. The Total Return as at 31 December 2012 increased by 1.5 per cent to 100.0 pence per ordinary share. During the year the Company made new investments of £4.44 million.

Chairman's Statement

In April 2012 the Company completed a successful offer for subscription, raising gross proceeds of over £10 million and on 16 November 2012 announced a further fundraising by way of joint offers for subscription with British Smaller Companies VCT plc. I am pleased to report that the Company has made a first allotment of 3,136,695 shares raising total gross proceeds of £2.18 million under the offers. The offer in relation to the 2012/2013 tax year remains open until 11:00 am on Friday 5 April 2013, and the offer in relation to the 2013/2014 tax year closes on 30 April 2013, but may close early in the event of full subscription.

The special dividend of 0.5 pence per ordinary share paid in October 2012 followed two profitable disposals of the investments in Primal Pictures Limited and Sirigen Group Limited, from the unquoted portfolio. The total dividends paid in the year of 4.5 pence per ordinary share brings the cumulative dividends paid since the Company's inception to 34.5 pence per ordinary share.

Financial Results

The movement in Net Asset Value per ordinary share and the dividends paid in the year can be summarised as follows:

Net Asset Value

	Pence/ordinary share
31 December 2011	68.5
Net increase in value	2.1
Buy-back of shares	0.1
Issue of new shares	(0.7)
Ordinary dividends paid	(4.0)
Special dividend paid	(0.5)
31 December 2012	65.5

During the 12 months to 31 December 2012 the Company realised a gain on investments of £2.252 million compared to original cost and an uplift of £1.662 million on the opening value. This comprises:

	Net proceeds from sales of investments £000	Cost of investment £000	Opening value 1 January 2012 £000	Gain on opening value £000	Profit on cost £000
Sale of Quoted and Unquoted investments	4,111	2,214	2,675	1,436	1,897
Deferred Proceeds received	99			99	99
Total Cash Proceeds	4,210	2,214	2,675	1,535	1,996
Deferred Proceeds accrued	197		65	132	197
Total Proceeds	4,407	2,214	2,740	1,667	2,193
Fixed Income Securities	1,127	1,068	1,132	(5)	59
Total	5,534	3,282	3,872	1,662	2,252

A detailed analysis of the investments sold in the year can be found in note 7 to the financial statements on page 54. The proceeds from these disposals have allowed for the payment of a capital dividend of 3.7 pence per ordinary share (£1.428 million) with the remaining dividend of 0.8 pence per ordinary share (£0.294 million) being paid from revenue.

In the 12 months since 31 December 2011 the Total Return, calculated by reference to Net Asset Value plus cumulative dividends, has increased by 1.5 per cent, and over the last two

years it has increased by 5.9 per cent. Over the same two year period this compares to a 5.8 per cent increase in the FTSE™ Small Cap Share index and a fall of 24.3 per cent in the FTSE All-Share™ index. The chart on page 4 of these accounts shows in greater detail the movement in Total Return and dividends paid over time.

Cumulative dividends at 31 December 2012 amounted to 34.5 pence per ordinary share. The Net Asset Value per ordinary share as at 31 December 2012 was 65.5 pence per ordinary share.

Investment Portfolio

Including the deferred proceeds received during the year the effective net gain on the investment portfolio was £1.05 million equivalent to 2.1 pence per ordinary share, an increase of 10.3 per cent on the opening 31 December 2011 portfolio value, which comprises profits on disposals during the year of £1.44 million, deferred consideration gains of £0.23 million and a reduction in residual portfolio value of £0.62 million.

There are currently thirty active companies in the portfolio of which nineteen are unquoted and the remaining eleven are quoted and traded on AIM on the London Stock Exchange. This compares to twenty nine companies at the end of 2011. The current value of the unquoted portfolio is £9.357 million, whilst the AIM quoted portfolio is valued at £2.006 million – these represent 82.3 per cent and 17.7 per cent of the total portfolio respectively. An analysis of the movements in the year is shown in note 7 to the financial statements on page 52.

During the year strong profits were generated from a number of disposals, although despite progress in many of the underlying businesses, the current carrying value of the residual portfolio has reduced by £0.62 million after allowing for the impact of investment disposals and deferred consideration payments. This figure comprises an increase of £0.17 million in the value of AIM investments, a fall in value of £0.79 million in respect of unquoted investments. The gilt portfolio has remained stable with a marginal decrease in value of £0.01 million.

Good progress has however been made by a number of our portfolio businesses which have seen profits grow despite the challenging economic environment.

- Since the initial investment in DisplayPlan Holdings Limited in January 2012 the business has had a very strong first year of trading and the value of the Company's investment has increased by £0.80 million to £1.50 million.
- Humber-based stevedoring and logistics operator, RMS Group Holdings Limited, has delivered another year of good profits, enabling the Company's remaining debt to be repaid in full and increasing the value of the remaining investment by £0.12 million.
- Several of the Company's quoted investments also reported good results with value increases seen by Iomart Group plc (up £0.13 million), Tikit Group plc (up £0.08 million) and Brady plc (£0.65 million). Subsequent to the year end the Company realised its investment in Tikit Group plc crystallising a further gain of £0.08 million.
- The largest negative changes in valuation were seen at Immunobiology Limited (£0.51 million) due to the pricing of a new £3.0 million investment round which was led by the Company, and Digital Healthcare Limited (£0.48 million) which is now profitable and consequently valued on an earnings basis although this has resulted in a lower valuation compared to the previous valuation method which was linked to the prior investment round price.

New Investments

2012 has been an active year for investments with the Company completing nine investments totalling £4.44 million compared to £2.78 million in 2011. This comprised four new investments in unquoted companies, one new investment into an AIM quoted company and four follow-on investments into existing portfolio companies.

The five new investments were:

- £1.26 million was invested to support the expansion plans of Seven Technologies Holdings Limited, a Northern Irish engineering business which specialises in developing bespoke electronics and communications applications for operation in inhospitable environments.

- £0.70 million was invested into DisplayPlan Holdings Limited as part of the buyout of this UK-based retail display group from its US parent company.
- £0.78 million was invested to fund the buyout of Insider Technologies (Holdings) Limited, an established provider of monitoring and scheduling software to the financial services and national security sectors.
- £0.30 million was invested into the buyout of Selima Limited, an established payroll & HR software services provider.
- £0.13 million was invested into AIM-quoted Hargreaves Services plc, the UK's largest solid fuel production and bulk haulage company.

The largest further investment into the portfolio was £0.90 million as part of a £3.0 million investment round into vaccine platform technology development business Immunobiology Limited. The Company led this round which included £1.0 million from a new external investor and this funding provides a clear path to achieve human trial results for its leading meningitis product to validate this innovative technology.

Disposal of Investments

During the year the Company received proceeds from disposals and deferred consideration of £4.21 million with a further £0.2 million of deferred consideration included in accrued income, representing a profit on cost of £2.19 million and an uplift on the opening value of £1.66 million, including a small £0.01 million loss on sales from the gilt portfolio. The two most significant disposals from the unquoted portfolio were:

- Primal Pictures Limited was sold to a UK-listed media group in August 2012, delivering total cash proceeds for the year of £2.01 million and a profit on disposal of £0.93 million. The profit on cost during the life of the investment was £1.11 million and represents a multiple on cost of 2.24x. A further £0.01 million has been included in accrued income in respect of expected deferred consideration.

- Sirigen Group Limited was sold to a US-based international healthcare group in August 2012, generating cash proceeds of £1.45 million and a profit on disposal of £0.53 million. This represents a profit on initial investment cost of £0.93 million and a multiple of 2.80x. The Company is also entitled to significant further deferred consideration payments of up to £0.6 million but only £0.11 million has been taken as profit as at December 2012.

In the 12 months to December 2012 the Company has received £0.05 million of deferred proceeds in respect of the trade sale of DxS Limited in 2009, bringing the total amount received from this investment to £2.64 million, representing a multiple of 16.17x on capital invested.

A comprehensive review of the investment portfolio can be found within the Fund Manager's Review on pages 10 to 26.

Shareholder Relations

Dividends

Your Board remains committed to achieving the objective of a consistent and increasing dividend stream over time. The Company paid dividends of 4.5 pence per ordinary share in the year and your Board is pleased to propose a final dividend of 2.5 pence per ordinary share. If approved at the Annual General Meeting, the dividend will be paid on 5 June 2013 to Shareholders on the register as at 3 May 2013.

Fundraising

Following an offer for subscription published on 26 October 2011 your Board is pleased to report the offer was fully subscribed and raised a total of £10 million net of costs.

The recent changes to UK legislation implemented with effect from 6 April 2012 have increased the ability of Venture Capital Trusts to invest in growing British businesses. This together with the restricted supply of other forms of finance has combined to make this an attractive investment environment for those such as VCTs that are able to take a medium term view. In particular businesses now have the ability to receive investment of up to

20 May
2013

The Annual General Meeting of the Company will be held at 12.00 noon on 20 May 2013 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 66.

£5 million in any one year from Venture Capital Trusts, which is an increase of £3 million over the previous limit. The Company is therefore seeking to increase further its investment capacity by £5 million through joint offers with British Smaller Companies VCT plc. The offer in relation to the 2012/2013 tax year remains open until 11.00am on Friday 5 April 2013 and the offer in relation to the 2013/2014 tax year remains open until 11.00am on Tuesday 30 April 2013 but may close earlier in the event of full subscription.

Following an excellent response to the offers, an initial allotment of 3,136,695 new ordinary shares was made on 31 December 2012. As at the date of this report the Company has received applications of £5.96 million under the joint offers.

Share Buy-Back Policy

Following a review of the share buy-back policy, the Board is pleased to advise that, as of 2 April 2013, the rate of discount to Net Asset Value at which ordinary shares are bought by the Company will be reduced to no more than 10 per cent from the previously stated 15 per cent.

Shareholder Relations

Your Board remains committed to enhancing Shareholder communications and continues to hold Shareholder workshops where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Company's Fund Manager, and the CEOs of one or more of our investee companies. Our 18th Shareholder workshop was held at Lord's Cricket Ground in London on 6 February 2013 and achieved the highest ever attendance with approaching 200 Shareholders attending. Presentations at the workshop were made by David Hall on behalf of the Company's Fund Manager, as well as the CEOs of investee companies Selima Limited and DisplayPlan Holdings

Limited and independent analyst and commentator Martin Churchill. Ten separate afternoon "Meet the Manager" sessions were attended by over 50 Shareholders.

Subsequent Events

Since the year end the Company has disposed of its holding in AIM quoted Tikit Group plc, supplier of enterprise software to UK legal practices, on its trade sale to British Telecommunications plc which completed in January 2013. The Company received £0.27 million of cash proceeds for the sale of its shares, representing a profit on original cost of £0.08 million.

In March 2013 a further investment of £0.07 million was made into existing portfolio company PowerOasis Limited, provider of energy management solutions to telecoms infrastructure operators. This investment was part of a significant \$5 million investment round led by a strategic trade investor.

On 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £12,905,041 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied. Following the cancellation, the total distributable reserves of the Company will increase to £20,284,000.

Following the acquisition of May Gurney Integrated Services plc by Costain Group plc on 26 March 2013 the Company disposed of its full shareholding of 39,000 shares for £2.42 per share raising total proceeds of £0.09 million.

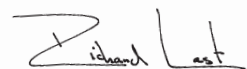
Outlook

The uncertain economic conditions have continued throughout the year and it is clear

that the UK economy is likely to continue to experience flat or very low growth for some time to come. However the portfolio companies on the whole remain well funded and have clear strategies to maximise the new market opportunities they now see. This Company remains well placed to continue to support our portfolio companies and take advantage of investment opportunities that may arise in the short term.

The Company's new investment activity is focused on small UK businesses with clearly differentiated business models, whether through an established brand or a niche position in a growing market, or innovative application of services and products. The investments made during 2012 clearly demonstrate this approach and have further increased the diversification of the portfolio, the largest investment representing less than 6 per cent of Net Asset Value.

The Board remains of the opinion that the ongoing economic challenges will provide many good investment opportunities and that this investment strategy can provide good returns throughout the economic cycles. It was with this in mind that we have sought to further increase the investment capacity of the Company this year.

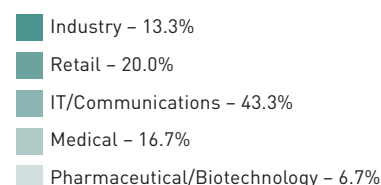


Richard Last
Chairman
28 March 2013

Fund Manager's Review

The Company is increasing its investment capacity to take advantage of the further investment opportunities over the coming months. The increase to £5 million in the amount of investment that companies can now receive from Venture Capital Trusts may well lead to an increase in investment demand over and above that seen in 2012. As a result the Board announced in November 2012 joint offers for subscription with British Smaller Companies VCT plc to be able to take advantage of opportunities as and when they arise.

In spite of a continuation of the challenging economic environment, there has been considerable further progress made by many of the businesses in the Company's portfolio during the year. The overall value gain from the portfolio was £1.05 million, an increase of 10.3 per cent on the opening 31 December 2011 portfolio value, which comprises profits on disposals during the year of £1.44 million, deferred consideration gains of £0.23 million and a reduction in the residual portfolio value of £0.62 million.



Our Portfolio

£11.4
million

Fair value of portfolio

2011: £10.2m

30

Number of portfolio companies

2011: 29

£4.44
million

Investment in portfolio

2011: £2.78m

£4.41
million

Realisations from portfolio

2011: £0.39m

5

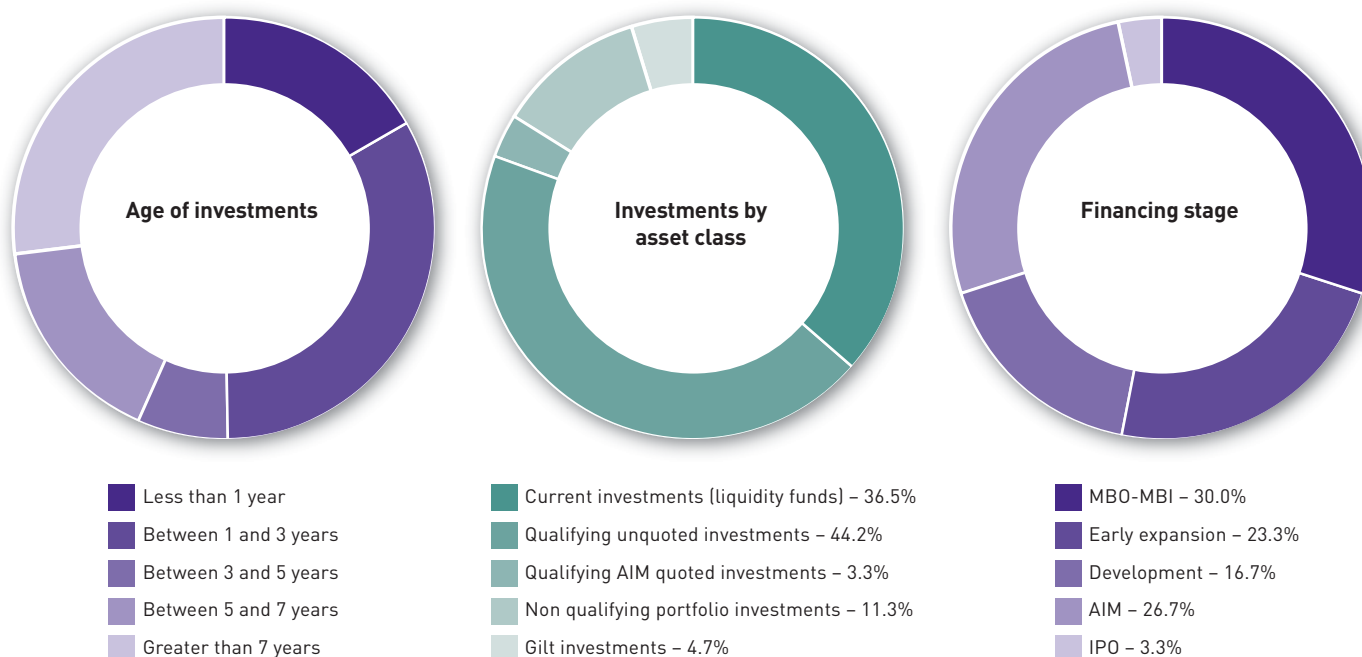
Number of new portfolio companies

2011: 9

Summary

- Investment activity levels have increased with nine investments during the year totalling £4.44 million (plus capitalised interest of £0.1 million).
- The Company has made four full disposals during the year from the unquoted portfolio and four part disposals from the quoted portfolio generating £4.11 million of cash proceeds, with a further £0.3 million of deferred consideration recognised.
- Cash and gilt investments at 31 December 2012 were £15.44 million representing 56.88 per cent of net assets, which compares to £5.69 million (35.63 per cent of net assets) at 31 December 2011.

Our Portfolio at a Glance



Significant Investment Movements

- Following the investment in sales resource in 2011 **Primal Pictures Limited** was able to further meet the commercial market demand for its new educational product which was instrumental in closing the trade sale during the year.
- Sirigen Group Limited** made further progress in integrating its innovative fluorescent marking technology into a number of commercial products leading to the sale during the year to one of its key customers.
- Following the buyout in January 2012 of retail display group, **DisplayPlan Holdings Limited**, the management team were able to deliver some significant customer gains in their first year of independence.
- After a protracted period **Immunobiology Limited** closed a £3.0 million investment round in August 2012 to fund clinical trials for its leading meningitis vaccine.
- Bagel Nash Group Limited** has begun the retail rollout of its bagel and coffee bars based in the north of England increasing the number of outlets from 11 to 15, and is now seeking to expand its baking capacity.
- Following the acquisition of its competitor in the UK retinal screening market, **Digital Healthcare Limited** delivered a profitable year in spite of significant pricing pressures from the NHS body governing the national diabetic screening programme.
- TeraView Limited**, a developer of innovative commercial applications utilising its leading terahertz technology, fell short of its revenue projections leading to a re-evaluation of the commercial strategy led by the company's non-executive director.
- Quoted business **lomart Group plc** continued to report strong progress of its strategy to consolidate the fragmented outsourced IT hosting market.

Portfolio Performance

	Quoted and unquoted portfolio £000	Deferred proceeds £000	Total £000
1 January 2011	10,209	65	10,274
Additions	4,445	–	4,445
Valuation changes			
– Unquoted	(788)	–	(788)
– Quoted	173	–	173
Proceeds	(4,112)	(99)	(4,211)
Profit on disposal	1,436	231	1,667
31 December 2012	11,363	197	11,560

Net Movement

	£000	%
Quoted	173	1.52
Unquoted	(788)	(6.93)
Profit on disposal	1,436	12.64
Deferred proceeds	231	2.03
Total Value Movement	1,052	9.26

Investment Portfolio

Non Listed Investments:	£000
Non Qualifying	831
Qualifying	8,526
	9,357
AIM Listed Investments:	£000
Non Qualifying	1,362
Qualifying	644
	2,006
Total Investments	11,363

Investment Activity

New Investments	£million
Seven Technologies Holdings Limited	1.26
Insider Technologies (Holdings) Limited	0.78
DisplayPlan Holdings Limited	0.70
Selima Limited	0.30
Hargreaves Services plc	0.13
Follow-on Investments	£million
Immunobiology Limited	0.90
Vianet Group plc	0.16
EKF Diagnostics Holdings plc	0.15
Sirigen Group Limited	0.06
Total Investments	4.44
Capitalised Interest	
Bagel Nash Group Limited (Capitalised Interest)	0.01
Total	4.45

Portfolio Overview

Portfolio Performance

Overall, the quoted and unquoted portfolio increased by £1.15 million to a total of £11.36 million from £10.21 million. Netting off the additions of £4.45 million and carrying value of disposals of £2.68 million from the opening December 2011 value, the net portfolio value movement of the residual portfolio over the year was a decrease of £0.62 million.

Overall the portfolio remains well funded and positioned for value growth as economic conditions improve and current strategies are implemented to capitalise on the changing market conditions.

The £99,000 of deferred proceeds relates to further cash payments from the sale of DxS Limited to Qiagen in 2009 and from the sale of Primal Pictures Limited in August 2012. There are expected future payments which have been included in the net assets at a total of £198,000 which comprise £70,000 in relation to DxS Limited, £18,000 relating to Primal Pictures Limited and £110,000 relating to Sirigen Group Limited. This value compares to a maximum entitlement to deferred proceeds of £741,000.

Including the deferred proceeds the effective net movement in the opening December 2011 value of the Company's portfolio was an increase of £1.05 million.

The £788,000 reduction in value of the unquoted portfolio principally relates to three investments, Immunobiology Limited, Digital Healthcare Limited and TeraView Limited. The portfolio is now well diversified with the biggest single investment representing less than 6 per cent of the Net Asset Value and mainly consisting of investments in profitable businesses (70 per cent by number and 83 per cent by value).

The quoted portfolio increase was in line with the overall movements in the quoted markets over the same period.

In accordance with the requirements of IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. The outcome of this sensitivity analysis can be found in note 7 of the financial statements on page 53 and note 19 on page 62.

Investment Activity

During the year the Company made a total of nine investments (£4.44 million), comprising five new investments and four follow-on investments into existing companies: (shown in the investment activity table above).

- Seven Technologies Holdings Limited is a Northern Ireland based engineering business specialising in developing bespoke electronics and communications applications for use in inhospitable environments.
- Insider Technologies (Holdings) Limited is an established provider of monitoring and scheduling software to the financial services and national security sectors.
- DisplayPlan Holdings Limited is a designer and importer of permanent retail point of purchase display equipment.
- Selima Limited is an established payroll & HR software services provider with clients in both the public and private sectors.
- Hargreaves Services plc is quoted on the AIM market and is the UK's largest solid fuel producer and bulk haulage company.

In addition to the above investments the Company made four additional investments into existing portfolio companies totalling £1.27 million. The most significant of these was a £0.9 million investment into Immunobiology Limited as part of the recent £3.0 million funding round. Although the valuation of this round was heavily discounted to previous investment rounds and impacted the historic value of the Company's investment, as a significant investor in the round the Company was a beneficiary of this pricing and now holds a 23 per cent shareholding in a business which could have significant value if it can demonstrate the efficacy of its new platform vaccine technology.

Disposals

In the last 12 months the Company has made a number of significant full and partial disposals from both the quoted AIM and unquoted investment portfolio. In total the Company has received over £4.11 million in cash proceeds this year. This has resulted in £1.44 million of realised gains over opening value in the year and profit on cost of £1.90 million resulting in an average return multiple on cost of 1.86x.

The two most significant disposals were Primal Pictures Limited and Sirigen Group Limited which achieved sale returns of 2.24 and 2.80 on cost.

Primal Pictures Limited: An award-winning digital e-learning company providing the world's most complete and medically accurate 3D human anatomy medical software used by educators, professionals, practitioners, and students around the world. Their 3D anatomical images of the human body are used by over 500,000 students in 77 per cent of the top 200 medical universities and educational centres of excellence world-wide.

This has been a long term investment for the Company, investing in 1999 and 2001 in a loss-making technology business seeking to achieve a stock market flotation. After the initial strategy failed, YFM worked closely with the company through a series of management changes and successfully repositioned the business as a provider of online educational products. We appointed corporate finance advisors in 2011 who helped deliver the successful sale in August 2012 to Informa plc who recognised the potential to leverage Primal's technology within their existing products and distribution channels. On completion of the sale David Carmen, Chairman of Primal Pictures, stated "YFM has been a strong partner through a period of significant change and was ultimately instrumental in enabling us all to achieve this successful result."

Sirigen Group Limited: Founded in 2004, Sirigen uses Nobel-prize winning science to produce light harvesting polymers which have a wide range of applications in research, medical diagnostics and life sciences. Since its initial investment in October 2010 YFM has worked hard to strengthen the company's management team, introducing new chairman David Evans, former Chairman of DxS Limited.

Following a clear strategy of proving commercial applications for the technology, the business was ultimately acquired by one of its customers, a US based company Becton, Dickinson & Company, a leading global medical technology company. Sirigen's patented technology will enable them to develop unique dyes and antibody specificity releases over the next two years to significantly expand its life science

research reagent portfolio. David commented "I have worked with YFM now on several occasions and see them as a strong partner, always taking a practical and pragmatic approach."

The holding in AIM-quoted Patsystems plc was realised via a trade sale in January 2012 to ION Group plc which realised £0.16 million of cash proceeds. Partial disposals were also achieved from four other quoted holdings; Brady plc (£0.16 million), Iomart Group plc (£0.11 million), May Gurney Integrated Services plc (£0.05 million) and Tikit Group plc (£0.02 million). A small legacy holding in Oxis Energy Limited was also disposed of for a nominal sum during a further funding round. In total these other disposals represented a value gain on disposal of £0.04 million.

Performance History

The chart in the Financial Summary on page 4 shows how the Total Return of the Company, calculated by reference to the Net Asset Value per ordinary share plus cumulative dividends paid per ordinary share has developed over the last 5 years.

Conclusion and Outlook

The year under review has seen a continuation of some of the previous challenging market conditions. In spite of this, further value growth has been achieved in the year and the portfolio is increasingly diverse and well-funded to deliver further value gains over the coming years.

Cash reserves remain strong and will be boosted with the funds raised from the new share issue, so the Company is well placed to take advantage of the gradually increasing investment rates, to continue to support the portfolio and maintain historic dividend levels.

David Hall
YFM Private Equity Limited
 28 March 2013

Fund Manager's Review

Portfolio valuation at 31 December 2012 and full history of disposals up to 31 December 2012

Page No.	Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost £000	Proceeds to Date* £000	Investment Valuation at 31 December 2012 £000	Return to Date £000
	Current Investments							
	Unquoted Portfolio							
17	DisplayPlan Holdings Limited	Jan-12	Hertfordshire	Retail	700	–	1,501	1,501
18	Seven Technologies Holdings Limited	Apr-12	Northern Ireland	Manufacturing	1,199	64	1,199	1,263
18	Immunobiology Limited**	Jun-03	Cambridge	Pharmaceuticals	1,932	–	987	987
18	Deep-Secure Limited	Dec-09	Malvern	Software	500	–	937	937
19	Digital Healthcare Limited**	Jun-05	Cambridge	Medical Instruments	3,072	–	913	913
19	Insider Technologies (Holdings) Limited	Aug-12	Manchester	Software	780	–	780	780
19	Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	–	520	520
20	PowerOasis Limited	Nov-11	Swindon	Energy Infrastructure	500	–	500	500
20	Harvey Jones Holdings Limited	May-07	London	Consumer Retail	389	–	414	414
20	Bagel Nash Group Limited	Jul-11	Leeds	Retail Baker	416	–	400	400
21	Waterfall Services Limited	Feb-07	Warrington	Healthcare	192	292	386	678
21	Selima Limited	Mar-12	Sheffield	Software	300	–	300	300
21	RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	70	338	229	567
22	Cambridge Cognition Limited	May-02	Cambridge	Software	240	–	194	194
22	Tissuemed Limited**	Dec-05	Leeds	Consumer Retail	48	–	60	60
22	Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	–	37	37
23	TeraView Limited	Dec-11	Cambridge	Medical Instruments	375	–	–	–
	Intelligent Recordings Limited	Sep-08	Nottingham	Electronics	–	–	–	–
	Solcom Limited	Dec-05	Ryde	Software	–	–	–	–
	Quoted Portfolio							
23	Iomart Group plc	May-11	London	IT Infrastructure	148	112	345	457
23	Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	–	315	315
24	Tikit Group plc	May-11	London	Software	183	17	262	279
24	EKF Diagnostics Holdings plc	Jul-11	London	Medical Instruments	224	–	248	248
24	Brady plc	Dec-10	Cambridge	Metals and Commodities	134	163	223	386
25	Vianet Group plc	Oct-06	Stockton-on-Tees	Electronics	243	–	218	218
25	Optos plc**	Dec-05	Dunfermline	Medical Instruments	81	167	137	304
25	Hargreaves Services plc	Aug-12	Durham	Industrial	125	–	110	110
26	May Gurney Integrated Services plc	May-11	Norwich	Construction	106	47	71	118
26	Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	54	54
26	Zergo Group plc	May-11	Manchester	Software	197	–	23	23
					13,621	1,200	11,363	12,563
Full disposals to date					11,169	18,238	–	18,238
Total					24,790	19,438	11,363	30,801

* Proceeds include premiums and profits on loan repayments and preference redemptions.

** Investment part or fully acquired following the acquisition of British Smaller Technology Companies VCT plc.

Portfolio valuation at 31 December 2012 and full history of disposals up to 31 December 2012 (continued)

Name of Company	Date of Initial Investment	Date of Disposal	Industry Sector	Original Cost*	Proceeds to Date	Capital Return Multiple	Gains (Losses) on Disposal £000
				£000	£000		
Disposed Investments							
DxS Limited	Apr-04	Sep-09	Healthcare	163	2,636	16.17	2,473
Cozart plc	Jul-04	Oct-07	Healthcare	1,566	2,983	1.90	1,417
Sarian Systems Limited**	Dec-05	Apr-08	Telecoms	928	2,605	2.80	1,677
Vibration Technology Limited**	Mar-02	Sep-06	Industrial Instruments	1,061	2,328	2.20	1,267
Primal Pictures Limited	Dec-05	Sept-12	Medical Instruments	897	2,005	2.24	1,108
Amino Technologies plc	Sep-01	Nov-04	Electronics	415	1,875	4.52	1,460
Sirigen Group Limited	Jun-10	Sep-12	Medical Technology	517	1,446	2.80	929
The ART Technology Group Inc	Apr-03	Oct-09	Software	275	638	2.32	363
Tamesis Limited	Jul-01	Sep-07	Software	150	317	2.11	167
Oxonica plc	May-02	Sep-09	Chemical	241	258	1.07	17
Group NBT plc	May-11	Nov-11	IT Support	197	256	1.30	59
Tekton Group Limited	Dec-05	Dec-06	Software	100	223	2.23	123
Voxar Limited	Dec-05	Nov-06	Software	–	134	–	134
Hallco 1389 Limited & Hallco 1390 Limited	Dec-06	Mar-08	Software	50	126	2.52	76
Arakis Limited	Mar-04	Aug-05	Healthcare	14	108	7.71	94
Oxis Energy Limited**	Dec-05	Dec-12	Electronics	5	4	0.80	(1)
SoseiCo Limited	Aug-05	Feb-06	Healthcare	158	94	0.59	(64)
Patsystems plc	Sep-07	Jan-12	Software	317	164	0.52	(153)
Broadreach Networks Limited	Feb-03	Dec-05	Telecoms	550	17	0.03	(533)
Sirus Pharmaceuticals Limited	Sep-01	Mar-04	Healthcare	270	14	0.05	(256)
Focus Solutions Group plc	Dec-05	Feb-06	Software	7	7	1.00	–
Infinite Data Storage Limited	Mar-02	Dec-10	Software	425	–	–	(425)
Purely Proteins Limited	Nov-03	Dec-05	Software	438	–	–	(438)
ExpressOn Biosystems Limited	Oct-02	Dec-05	Healthcare	450	–	–	(450)
Comvurgent Limited**	Dec-05	Dec-08	Software	611	–	–	(611)
Silistix Limited	Dec-03	Sep-10	Electronics	1,364	–	–	(1,364)
Total				11,169	18,238	–	7,069

* Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc.

** Investment part or fully acquired following the acquisition of British Smaller Technology Companies VCT plc.

Reconciliation of Investment Portfolio movement since 31 December 2011

Name of Company	Investment Valuation at 31 December 2011 £000	Disposals £000	Additions £000	Valuation gains (losses) £000	Investment valuation at 31 December 2012 £000
DisplayPlan Holdings Limited	–	–	700	801	1,501
Seven Technologies Holdings Limited	–	(64)	1,262	–	1,198
Immunobiology Limited	602	–	900	(515)	987
Deep-Secure Limited	1,103	–	–	(166)	937
Digital Healthcare Limited	1,396	–	–	(483)	913
Insider Technologies (Holdings) Limited	–	–	780	–	780
Bluebell Telecom Group Limited	569	–	–	(49)	520
PowerOasis Limited	500	–	–	–	500
Harvey Jones Holdings Limited	390	–	–	24	414
Bagel Nash Group Limited	405	–	11	(16)	400
Waterfall Services Limited	390	–	–	(4)	386
Iomart Group plc	285	(71)	–	131	345
Pressure Technologies plc	270	–	–	45	315
Selima Limited	–	–	300	–	300
Tikit Group plc	195	(16)	–	83	262
Other Investments	4,104	(2,525)	492	(466)	1,605
Total Movement	10,209	(2,676)	4,445	(615)	11,363

Fund Manager's Review

Industry



Fair value

£0.72m

2011: £0.73m

Number of companies

4

2011: 3

Retail



Fair value

£2.96m

2011: £1.28m

Number of companies

6

2011: 5

IT/Communications



Fair value

£5.09m

2011: £3.60m

Number of companies

13

2011: 12

Medical



Fair value

£1.55m

2011: £3.94m

Number of companies

5

2011: 7

Pharmaceutical/ Biotechnology



Fair value

£1.04m

2011: £0.65m

Number of companies

2

2011: 2

Investment Portfolio

This section describes the business of the active companies in the portfolio, in order of valuation at 31 December 2012 as detailed on page 14. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed:

Unquoted Portfolio

DisplayPlan Holdings Limited

Baldock, Herts
www.displayplan.com

Cost:	£700,000
Valuation:	£1,501,000
Date of investment:	January 2012
Equity held:	12.25%
Valuation basis:	Earnings multiple
Interest:	£61,274 (2011: nil)

Year ended	2011	2010
31 December	£million	£million
Sales	16.19	13.11
EBITA	1.78	0.08
Profit before tax	1.78	0.08
Retained profits	2.13	0.81
Net assets	2.14	0.82

DisplayPlan Holdings is a complete retail display consultancy service (from concept through design and sourcing to finished product delivery) to established branded product manufacturers and UK retailers. Typical products include bespoke point of purchase (POP) stands in high street retail stores and the business enjoys regular repeat work from a long-established customer base.



Seven Technologies Holdings Limited

Belfast
www.seventechnologies.co.uk

Cost:	£1,199,000
Valuation:	£1,199,000
Date of investment:	April 2012
Equity held:	3.12%
Valuation basis:	Price of recent investment reviewed for change in fair value
Interest:	£44,800 (2011: nil)

Seven Technologies is a fast growing specialist engineering business based in Northern Ireland specialising in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to maintain the impressive expansion to date through increasing the company's international presence and significantly growing average contract sizes, in what is now a significant international market for its products.



Following the buyout of the existing company (Seven Technologies Limited) in April 2012 the first set of audited financial statements for Seven Technologies Holdings Limited are not yet due.

Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£1,932,000
Valuation:	£987,000
Dates of investment:	June & December 2003, November & December 2005, August 2007, March 2010 & August 2012
Equity held:	23.00%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Year ended 31 May	2012 £million	2011 £million
Sales	-	-
Loss before tax	(1.33)	(1.27)
Retained losses	(8.13)	(7.07)
Net liabilities	(3.12)	(2.05)

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. A licence deal has recently been signed with Chinese pharmaceutical group Lanzhou Institute of Biological Products Co Limited to fund the clinical development of a TB vaccine in China. Regulatory clearance has also been granted to commence human trials for a universal meningitis vaccine and a £3.0 million funding round was closed in August 2012.



Deep-Secure Limited

Malvern
www.deep-secure.com

Cost:	£500,000
Valuation:	£937,000
Date of investment:	December 2009
Equity held:	8.15%
Valuation basis:	Earnings multiple
Interest:	£54,148 (2011: £28,701)

Year ended 31 December	2011 £million	2010 £million
Sales	3.72	2.61
EBITA	1.50	0.63
Gain/(loss) for the period	0.24	(0.50)
Retained losses	(0.26)	(0.50)
Net assets/(liabilities)	0.14	(0.12)

Deep-Secure's market leading products protect against threats to IT security through high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack leads to more businesses relying on higher levels of security to protect their data, with the main customers being international governments, cross border forces and defence companies. Profit levels have grown strongly since the Company's investment in 2009.



Digital Healthcare Limited

Cambridge
www.digital-healthcare.co.uk



Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. It has developed its UK business becoming a leading supplier of diabetic retinopathy screening software to the NHS. Last year Digital Healthcare completed the acquisition of the number two player, Orion Limited, supported by the National Screening Council.

Digital Healthcare Limited has a small company exemption from filing full audited financial statements at Companies House.

Cost:	£3,072,000	
Valuation:	£913,000	
Dates of investment:	June & December 2005, July 2007, October & November 2008	
Equity held:	25.04%	
Valuation basis:	Earnings multiple	
Year ended	2011	2010
30 September	£million	£million
Retained losses	(6.70)	(5.26)
Net assets	0.99	1.12

Insider Technologies (Holdings) Limited

Manchester
www.insidertech.co.uk



Insider Technologies is an established provider of monitoring and scheduling software to the financial services and national security sectors. The Company backed the buyout of the business introducing new senior management to complement the existing team, who also invested in the deal. The strategy is to increase the sales focus and roll out existing and new complementary products in the UK and overseas.

Following the buyout of the existing company (Insider Technologies Limited) in June 2012 the first set of audited financial statements for Insider Technologies (Holdings) Limited are not yet due.

Cost:	£780,000	
Valuation:	£780,000	
Date of investment:	August 2012	
Equity held:	17.20%	
Valuation basis:	Price of recent investment, reviewed for change in fair value	
Interest:	£22,025 (2011: n/a)	

Bluebell Telecom Group Limited

Newcastle upon Tyne
www.bluebelltelecom.com



Bluebell is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investment was made to assist with the next phase of Bluebell's growth. In August 2011 Bluebell acquired another telecommunications group Worldwide ISDN Limited which has now been successfully integrated.

Cost:	£500,000	
Valuation:	£520,000	
Date of investment:	September 2010	
Equity held:	6.75%	
Valuation basis:	Earnings multiple	
Interest:	£35,005 (2011: £35,908)	
Year ended	2012	2011
30 April	£million	£million
Sales	13.59	7.02
EBITA	2.37	0.90
Profit (loss) before tax	0.34	(0.17)
Retained losses	(0.23)	(0.27)
Net assets	4.68	4.58

PowerOasis Limited

Swindon
www.power-oasis.com

Cost:	£500,000
Valuation:	£500,000
Date of investment:	November 2011
Equity held:	3.60%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 31 January	2012 £million	2011 £million
Sales	2.73	1.05
LBITA	(2.12)	(1.57)
Loss before tax	(2.12)	(1.57)
Retained losses	(4.65)	(2.98)
Net assets	3.20	0.67

PowerOasis is a provider of power management solutions to the mobile telecommunications sector. Their power systems are installed at communication masts in remote international locations, often not connected to an electricity grid, facilitating significant cost savings by selectively switching between a range of alternative power sources. A further \$5 million funding round was completed in February 2013 which included a significant investment from a trade partner.



Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£389,000
Valuation:	£414,000
Date of investment:	May 2007
Equity held:	3.44%
Valuation basis:	Earnings multiple
Interest:	£39,685 (2011: £34,971)

Year ended 31 December	2011 £million	2010 £million
Sales	12.24	10.87
EBITA	0.99	0.98
Profit before tax	0.28	0.27
Retained profits	0.20	0.09
Net assets	0.74	0.63

Harvey Jones is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 26 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.



Bagel Nash Group Limited

Leeds
www.bagelnash.com

Cost:	£416,000
Valuation:	£400,000
Date of investment:	July 2011
Equity held:	4.60%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£37,295 (2011: £16,894)

Year ended 30 April	2012 £million	2011 £million
Retained profits	0.89	1.28
Net assets	0.89	1.28

Bagel Nash is a bakery and branded food retailer based in the North of England. The Company's recent investment backed a proven management team to lead a buyout with the potential to improve operational efficiencies and then roll out the proven retail concept into other geographical areas.

Since investment the number of retail stores has increased from 11 to 15.

Bagel Nash Group Limited has a small company exemption from filing full audited financial statements at Companies House.



Waterfall Services Limited

Warrington
www.caterplus.co.uk



Cost:	£192,000
Valuation:	£386,000
Dates of investment:	February 2007, June 2008 and September 2011
Equity held:	4.88%
Valuation basis:	Earnings multiple
Dividends received:	£nil (2011: £10,955)
Interest:	£23,821 (2011: £13,333)

Year ended 31 March	2012 £million	2011 £million
Sales	46.47	43.26
EBITA	1.58	2.10
Profit before tax	0.86	1.30
Retained profits	1.44	1.57
Net assets	2.73	2.45

Waterfall was originally a contract caterer specialising in the care home sector. Since the original investment the company has expanded its original catering services business from supplying residential and care homes to supplying the educational market. There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding the services provided to both the education and home care sectors.

Selima Limited

Sheffield
www.selima.co.uk



Cost:	£300,000
Valuation:	£300,000
Date of investment:	March 2012
Equity held:	5.90%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£17,575 (2011: nil)

Year ended 31 December	2011 £million	2010 £million
Retained profits	0.77	0.64
Net assets	0.77	0.64

Headquartered in Sheffield, **Selima** has considerable experience of deploying comprehensive payroll, HR and expenses solutions and bureau services that save organisations significant sums of money. Selima's customers include Bristol City Council, Young's Brewery and Greater Manchester police. The investment will help the business to expand by improving services for new and existing clients and introducing new, innovative products.

Selima Limited has a small company exemption from filing full audited financial statements at Companies House.

RMS Group Holdings Limited

Goole
www.rms-humber.co.uk



Cost:	£70,000
Valuation:	£229,000
Dates of investment:	July 2007, June 2008 & August 2010
Equity held:	3.15%
Valuation basis:	Earnings multiple
Interest:	£3,396 (2011: £16,800)

Year ended 31 December	2011 £million	2010 £million
Sales	27.66	25.46
EBITA	2.15	1.93
Profit before tax	0.99	0.61
Retained profits (losses)	0.76	(0.03)
Net assets	5.43	4.65

RMS operates from six sites on the Humber estuary handling around 2 million tonnes of cargo a year. RMS has continued to broaden its range of customer services and expand its operations along the Humber estuary. Whilst dependent on the overall level of commodity movements the financing structure of the company has been defensively constructed giving it a competitive advantage over others in its sector. The RMS management has used the tough economic conditions to consolidate their market position and the remaining shareholder loans have all been repaid.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost: £240,000
Valuation: £194,000
Date of investment: May 2002
Equity held: 2.43%
Valuation basis: Earnings multiple

Year ended 31 December	2011 £million	2010 £million
Sales	5.87	4.83
(Loss) profit before tax	(0.16)	0.74
Retained losses	(6.33)	(6.16)
Net liabilities	(0.41)	(0.25)

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental health conditions. It received funding from a range of investors to assist with commercialising its intellectual property. A profitable business model has been established providing its tests for use in evaluating clinical trials but a much bigger opportunity could exist in the personal care market.



Cambridge Cognition Limited has recently announced plans for an Initial Public Offering (IPO) with the target of raising a minimum of £5 million. If successful the company will list on AIM in April 2013.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost: £48,000
Valuation: £60,000
Dates of investment: December 2005 & March 2007
Equity held: 1.63%
Valuation basis: Price of recent investment, reviewed for change in fair value, and supporting third party investment

Year ended 31 March	2012 £million	2011 £million
Sales	0.63	0.56
Loss before tax	(0.65)	(0.76)
Retained losses	(17.20)	(16.65)
Net assets	2.36	2.92

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. In April 2010 the company secured investment and a pan-European distribution agreement from a US listed medical devices company.



Ellfin Home Care Limited

Oldham
www.ellfin.com

Cost: £317,000
Valuation: £37,000
Dates of investment: December 2007, October 2008 and June 2010
Equity held: 6.17%
Valuation basis: Earnings multiple

Year ended 31 October	2011 £million	2010 £million
Sales	3.72	3.89
Loss before tax	(0.78)	(0.52)
Retained losses	(1.38)	(0.63)
Net liabilities	(0.79)	(0.04)

Ellfin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The company was established as a vehicle to acquire a number of home care businesses forming a north west group over a five year period. To date two acquisitions have been completed.



TeraView Limited

Cambridge
www.teraview.com

Cost:	£375,000
Valuation:	£nil
Date of investment:	December 2011
Equity held:	7.50%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 30 April	2012 £million	2011 £million
Sales	1.84	2.95
Loss before tax	(2.48)	(5.75)
Retained losses	(34.34)	(32.00)
Net liabilities	(0.00)	(18.72)

TeraView has developed a range of instrumentation and testing equipment based on its innovative terahertz technology which address various commercial applications in the electronics, medical analysis, solar power and security sectors. The majority of future growth is expected to come from the packaged semiconductor testing market.



Quoted Portfolio

Iomart Group plc

London
www.iomart.com

Cost:	£148,000
Valuation:	£345,000
Date of investment:	May 2011
Equity held:	0.17%
Valuation basis:	Quoted bid price
Dividends received:	£2,070 (2011: £1,495)

Year ended 31 March	2012 £million	2011 £million
Sales	33.48	25.25
Profit before tax	5.84	2.79
Retained profits	24.81	19.15
Net assets	45.06	38.09

The **Iomart Group** is one of Europe's leading providers of managed hosting and cloud computing services. Iomart Group specialises in the design, delivery and management of business-critical hosting services enabling companies and organisations to reduce the cost, complexity and risks associated with maintaining their own web and online applications. The company is following a consolidation strategy in this fragmented and growing market.



Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost:	£300,000
Valuation:	£315,000
Dates of investment:	June 2007 & May 2008
Equity held:	1.76%
Valuation basis:	Quoted bid price
Dividends received:	£14,607 (2011: £14,407)

Year ended 30 September	2012 £million	2011 £million
Sales	30.44	23.13
Profit before tax	1.78	0.58
Retained profits	10.10	9.60
Net assets	16.06	15.54

Pressure Technologies was admitted to AIM in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying into other sectors, such as biogas and defence. The balance sheet remains un-gearred with substantial cash available.



Tikit Group plc

London
www.tikit.com

Cost:	£183,000
Valuation:	£262,000
Dates of Investment:	May & June 2011
Equity held:	0.43%
Valuation basis:	Quoted bid price
Dividends received:	£5,440 (2011: £1,725)

Year ended	2011	2010
31 December	£million	£million
Sales	26.40	26.88
Profit before tax	3.53	2.94
Retained profits	11.92	9.96
Net assets	18.17	16.16

Note: 2012 information not available.

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company provides a range of document and knowledge management tools to the majority of the top 50 UK legal practices and is increasingly broadening services and extending its customer base. The business is un-gearred with significant net cash and increasing levels of recurring revenue. In January 2013 the investment was realised generating proceeds of £0.27 million and profit on cost of £0.08 million via a trade sale to British Telecom plc.



EKF Diagnostics Holdings plc

London
www.ekfdiagnostics.com

Cost:	£224,000
Valuation:	£248,000
Dates of investment:	July 2011 & March 2012
Equity held:	0.33%
Valuation basis:	Quoted bid price

Year ended	2012	2011
31 December	£million	£million
Sales	26.06	21.66
PBITA (LBITA)	0.20	(2.04)
Loss before tax	(0.20)	(2.36)
Retained losses	(3.00)	(5.66)
Net assets	39.43	37.43

EKF is a provider of a wide range of diagnostic needs in clinical care, blood donor services and dialysis centres, recreation institutes, sports medicine and industrial applications. EKF's name consists of the first three letters of German words, Entwicklung (development), Konstruktion (construction) and Fertigung (production), which are the main business divisions. EKF is well funded and has made some good acquisitions and commercial progress.



Brady plc

Cambridge
www.bradyplc.com

Cost:	£134,000
Valuation:	£223,000
Date of investment:	December 2010
Equity held:	0.28%
Valuation basis:	Quoted bid price
Dividends received:	£6,072 (2011: £5,667)

Year ended	2011	2010
31 December	£million	£million
Sales	19.16	11.12
Profit before tax	2.10	0.62
Retained profits	3.95	3.00
Net assets	23.95	22.61

AIM-listed **Brady plc** is the leading global provider of trading, risk management and settlement software to the energy, metals, recycling and commodities sectors. Brady has a market leading position in these sectors and continues to grow rapidly through a combination of organic growth and acquisition.

Brady plc has seen another year of growth. Based on the company's preliminary results for the year ended 31 December 2012, revenue has increased to in excess of £28.1 million, an increase of 47 per cent on the 2011 results. The company has also seen an increase in EBITDA before exceptional costs of 52 per cent to £5.64 million.



Vianet Group plc (formerly Brulines Group plc)

Stockton-on-Tees
www.vianetplc.com

Cost:	£243,000
Valuation:	£218,000
Date of investment:	October 2006
Equity held:	0.79%
Valuation basis:	Quoted bid price
Dividends received:	£9,002 (2011: £3,729)

Year ended 31 March	2012 £million	2011 £million
Sales	22.98	24.28
EBITA	3.35	3.75
Profit before tax	2.34	3.03
Retained profits	9.73	9.01
Net assets	23.22	22.44

Vianet is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licenced on-trade. The company has consolidated its market leading position and continues to seek to expand its service and product offering. Dividend yield remains strong, but the pub chains continue to struggle, leading Vianet to diversify into related markets, such as petrol forecourts and vending solutions.



Optos plc

Dunfermline
www.optos.com

Cost:	£81,000
Valuation:	£137,000
Dates of investment:	December 2005 & February 2007
Equity held:	0.11%
Valuation basis:	Quoted bid price

Year ended 30 September	2012 \$million	2011 \$million
Sales	193.20	143.30
Profit before tax	23.40	22.00
Retained losses	(3.50)	(21.30)
Net assets	118.60	100.50

Optos has developed a series of scanning laser ophthalmoscopes used by optometrists for the early detection of eye problems such as age-related macular degeneration. Approximately 4,000 devices have been installed worldwide, mostly in North America, either on a capital sale or rental basis. A new lower cost product, Daytona, was launched in October 2011.



Hargreaves Services plc

Durham
www.hargreavesservices.co.uk

Cost:	£125,000
Valuation:	£110,000
Date of investment:	August 2012
Equity held:	0.06%
Valuation basis:	Quoted bid price

Year ended 31 May	2012 £million	2011 £million
Sales	688.26	552.26
EBITA	53.97	46.65
Profit before tax	43.12	36.93
Retained profits	97.80	74.16
Net assets	136.36	114.65

In the years following its formation in 1994 **Hargreaves Services** established itself as the largest independent bulk haulage company in Britain with a national network of depots and facilities. It has expanded into energy trading in mainland Europe and operates two collieries and a coke plant. The planning consent received in 2011 to begin production at Tower Colliery in Wales was a significant step and should underpin further profit growth. In 2012 operational issues were discovered at the Maltby colliery leading to a decision to close down production.



May Gurney Integrated Services plc

Norwich
www.maygurney.co.uk

Cost:	£106,000
Valuation:	£71,000
Dates of investment:	May and June 2011
Equity held:	0.06%
Valuation basis:	Quoted bid price
Dividends received:	£6,567 (2011:£3,525)

Year ended	2012	2011
31 March	£million	£million
Sales	695.30	571.40
Profit before tax	19.30	18.80
Retained earnings	72.60	64.10
Net assets	92.60	84.10

May Gurney is an infrastructure support services company which provides essential maintenance and enhancement services to clients in the public and regulated sectors. The group has grown through a series of low risk acquisitions and is un-gearred with a significant cash balance.



Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost:	£350,000
Valuation:	£54,000
Dates of investment:	October 2004, April 2005, February 2007, September 2010, October 2010 and December 2010
Equity held:	0.11%
Valuation basis:	Quoted bid price

Year ended	2012	2011
30 June	£million	£million
Sales	41.28	41.55
Profit (loss) before tax	0.64	(2.31)
Retained losses	(100.13)	(100.29)
Net assets	14.59	2.14

Allergy Therapeutics specialises in the treatment and prevention of allergies. Whilst good progress has been made in expanding sales, growth has been inhibited until such time as approval is gained from The Food and Drug Administration Agency (FDA) for its key products, although some progress has been reported recently.



2ergo Group plc

Manchester
www.2ergo.com

Cost:	£197,000
Valuation:	£23,000
Date of investment:	May 2011
Equity held:	0.24%
Valuation basis:	Quoted bid price

Year ended	2012	2011
31 August	£million	£million
Sales	8.37	10.12
Loss before tax	(16.18)	(3.78)
Retained (losses) profits	(9.14)	8.15
Net assets	3.09	23.69

2ergo is a provider of marketing solutions via mobile devices which takes advantage of the significant increase in the use of smart phones in recent years. The company's business model was significantly impacted by a regulatory change in 2011 to the way customers can be charged for services. A new suite of retail services has been developed based on the company's contactless payment service technology.



Valuation of Investments

Initial Measurement

Financial assets are initially measured at fair value. The best estimate of the initial fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

Subsequent Measurement

The International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") identify 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

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that 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.

- **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 discounting 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.
- **Sales multiples and industry valuation benchmarks.** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.




Discounted cash flows and industry valuation benchmarks 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 reduction in fair value.

Where an independent third party valuation exists, this will be used as the basis to derive the gross attributable enterprise value of the company. In other cases, the most suitable valuation technique, as set out above, is used to determine this value. This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

Unquoted investments held in the form of loan investments are valued at fair value using the appropriate methodologies as used for valuing equity investments, primarily being price of recent investment and discounted cash flows from the investment.

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.

Name	Background and Experience
<p>Richard Last Chairman</p> 	<p>Richard Last is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors. He is a non-executive chairman of CSE Global (UK) Limited, a subsidiary of a Singapore Stock Exchange listed company CSE Global Limited, of which he is also a non-executive director, and is also chairman and non-executive director of Arcontech Group plc (a financial software business listed on AIM). He is also a chairman and non-executive director of Lighthouse Group plc and a non-executive director of Corero Network Security plc, both AIM listed. In addition he is a director and shareholder of a number of private companies including the IT company APD Communications Limited.</p>
<p>Robert Martin Pettigrew</p> 	<p>Robert has more than 20 years' experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is currently chairman of Acal Energy Limited, Odos Imaging Limited and Sunamp Limited.</p>
<p>Peter Charles Waller</p> 	<p>Peter is an experienced chairman and director with extensive UK and international executive experience in the IT technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently chairman of KeyPoint Technologies (UK) Limited and Premier Veterinary Group Limited, director and founder of Turnberry Management Company Limited and non-executive director of BCS Learning & Development Limited. For the past decade Peter has worked as a board member with a succession of early stage and early growth private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies.</p>
Secretary	Registered Office
<p>KHM Secretarial Services Limited Old Cathedral Vicarage St James Row Sheffield S1 1XA</p> <p>Registered No: 03612770</p>	<p>St Martins House 210-212 Chapeltown Road Leeds LS7 4HZ</p>

Directors' Report

For the year to 31 December 2012

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2012.

Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ.

The Company has its primary, and sole, listing on the London Stock Exchange.

The Company operates as a venture capital trust ("VCT") and has been approved by HM Revenue & Customs as an authorised venture capital trust under Chapter 3 Part 6 of the Income Tax Act 2007. It is the

directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 Part 6 of the Income Tax Act 2007.

Principal Risks, Risk Management and Regulatory Environment

The Board believes that the principal risks faced by the Company are:

Economic

Risk

Events such as recession and interest rate fluctuations could affect smaller 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 on page 2 and a diversified portfolio operating in a range of sectors. The Fund Manager actively monitors investee performance which provides quality information for the monthly review of the portfolio.

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 (at least) quarterly 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 Fund 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.

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 capital gains tax on investment 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" on page 31.

Regulatory

Risk

The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and International Financial Reporting Standards as adopted by the European Union. 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 Fund Manager has procedures in place to ensure recurring Listing Rules requirements are met and actively consults with brokers, solicitors and external compliance advisors as appropriate. The key controls around compliance are explained on page 36.

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 Fund 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 Fund Manager, have been agreed between the Fund Manager and the Company. Advice is sought from external advisors where required. Both the Company and the Fund Manager maintain appropriate insurances.

Operational

Risk

Failure of the Fund 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 Fund Manager has a documented disaster recovery plan.

Financial

Risk

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

Mitigation

The key controls around financial reporting are described on page 36.

Market/Liquidity

Risk

Lack of liquidity in both the venture capital and public markets. Investment in AIM quoted and 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. 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 Fund Manager and on a quarterly basis by the Board. Sufficient investments in cash and fixed income securities are maintained to pay expenses as they fall due.

Business Review

As in previous years, a review of the Company's activities over the past twelve months and the outlook for future developments are included within the Chairman's Statement and Fund Manager's Review. The Company, in common with the VCT industry, did not have any employees during the year. The business and administrative duties of the Company are contracted to the Fund Manager, YFM Private Equity Limited, with the Board retaining key decision matters for approval. The Board manages the business affairs of the Company through regular management reports from its Fund Manager and, through this process, ensures that it has sufficient resources to carry out its functions and meet its strategic objectives.

Principal Risks, Risk Management and Regulatory Environment

The Board seeks to mitigate its 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 C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 36 and further information on exposure to risks including those associated with financial instruments is given in note 19a of the financial statements.

Key Performance Indicators

The Company monitors a number of Key Performance Indicators as detailed below:

Total Return

The recognised measurement of financial performance in the VCT industry is that of Total Return (expressed in pence per share) calculated by adding the total cumulative dividend paid to Shareholders from the date a company is launched to its current reporting date to the Net Asset Value at that date.

The chart showing the Total Return of your Company is included within the Financial Summary on page 4. An additional table analysing Total Return by each fundraising round of the Company has been added and can be found on page 5.

The evaluation of comparative success of the Company's Total Return is by way of comparison to the Share Price Total Return of approximately 60 Generalist VCTs as published by the Association of Investment Companies. This is the Company's stated benchmark index. A comparison of this return is shown in the Directors' Remuneration Report on page 40.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. 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 the London Stock Exchange throughout the period, there are a further five specific tests that VCTs must meet following the initial three year provisional period:

Income Test

The Company's income in the period must be derived wholly or mainly (70 per cent) from shares or securities. The Company complied with this test in the period, with 71.61 per cent (2011: 83.02 per cent) of income being derived from such sources. Included within this calculation is £52,000 of interest income which has been fully provided for in the Statement of Comprehensive Income.

Retained Income Test

The Company must not retain more than 15 per cent of its income from shares and securities. The Company complied with this test in the period, with 0 per cent (2011: 0 per cent) of income being retained in the period.

Qualifying Holdings Test

At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in qualifying holdings of investee companies. The Company complied with this test, with 92.28 per cent (2011: 81.40 per cent) of value being in qualifying holdings.

Eligible Shares Test

At least 30 per cent of the Company's qualifying holdings must be represented throughout the period by holdings of non-preferential ordinary shares. The Company complied with this test, with 68.16 per cent (2011: 76.24 per cent) of value being in holdings of non-preferential ordinary shares.

Maximum Single Investment Test

The value of any one investment has, at any time in the period, not represented more than 15 per cent of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively. The Company has complied with this test with the highest such value being 6.99 per cent (2011: 10.70 per cent).

The Board receives regular reports on compliance with the VCT legislative tests from its Fund Manager. In addition, the Board receives formal reports from its VCT Status Adviser, PricewaterhouseCoopers LLP, twice a year.

The Board can confirm that during the period all of the VCT legislative tests have been met.

Results and Dividends

The Statement of Comprehensive Income is set out on page 42.

The profit before and after taxation for the year amounted to £852,000 (2011: £1,040,000 profit).

During the year the Company paid a total of £1,722,000 worth of dividends totalling 4.5 pence per ordinary share, including the payment of a special dividend of 0.5 pence per ordinary share. A detailed review can be found in note 5 on page 51.

The directors recommend the payment of a final dividend of 2.5p per ordinary share (2011: 2.0p). A resolution to this effect will be proposed at the Annual General Meeting to be held on 20 May 2013.

The Net Asset Value per ordinary share at 31 December 2012 was 65.5p (2011: 68.5p). The transfer to and from reserves is given in the Statement of Changes in Equity on page 44.

Issue and Buy-Back of Shares

Date	Number of ordinary shares of 10p bought-back	Percentage of issued share capital at that date	Consideration paid per ordinary share
11 May 2012	168,318	0.44%	57.25p
14 June 2012	80,916	0.21%	57.25p
21 November 2012	74,405	0.19%	55.68p

Share Capital

As shown in note 11 of the financial statements, the Company has only one class of ordinary shares.

Issue and Buy-Back of Shares

In accordance with the Company's stated share buy-back policy the Company purchased during the year, under the authority granted by the Shareholders at a general meeting held on 30 August 2011, ordinary shares of 10 pence each in the market (as disclosed in the table above) for aggregate consideration amounting to £184,114. These shares are held in treasury.

Under the existing authority, which expires on 30 August 2014, the Company has the power to purchase shares up to 14.99 per cent of the Company's ordinary share capital as at 27 July 2011, being 3,501,555 ordinary shares.

During the year a total of 18,450,681 ordinary shares were issued of which 172,447 were issued under the Company's dividend re-investment scheme. Further details are given in note 11 on page 58.

The directors have unconditional authority to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company until 18 March 2014 in connection with the following:

- the joint offers for subscription with British Smaller Companies VCT plc (which closes on 5 April and 30 April 2013 respectively), up to an aggregate nominal amount of £1,000,000;
- an offer of shares by the way of a rights issue;

- an allotment of shares for cash up to an aggregate nominal amount of 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the joint offers for subscription on 30 April 2013.

In addition, the directors have a separate unconditional authority to allot shares in the Company in connection with the Company's dividend re-investment scheme until 11 January 2016.

In order to ensure the directors retain the authority to allot shares in the Company (other than pursuant to its dividend re-investment scheme) until the Annual General Meeting 2014, the authority to allot shares for cash up to an aggregate nominal amount representing approximately 10 per cent of the issued ordinary share capital of the Company as at 28 March 2013 is recommended for renewal at this year's Annual General Meeting (with all existing authorities to allot, other than the existing authority to allot pursuant to the Company's dividend re-investment scheme, being revoked).

Subsequent changes to the Company's Reserves

On 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £12,905,041 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied. Following the cancellation, the total distributable reserves of the Company will increase to £20,284,000.

Capital Disclosures

The following information has been disclosed in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008:

- the Company's capital structure is summarised in note 11 to the financial statements; each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme; the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and seek to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of trade payable days during the year was 25 (2011: 22).

Environment

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 Fund Manager. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies to reduce any damage that might be caused by its activities. Initiatives designed

to minimise the Company's impact on the environment include recycling and reducing energy consumption. Given the size and nature of the Company's activities and the fact that it has no employees, the Board considers there is limited scope to develop and implement social and community policies.

Directors and their Interests

The directors of the Company at 31 December 2012, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 39 to 40.

Substantial Shareholdings

The directors are not aware of any substantial shareholdings representing 3 per cent or more of the Company's issued share capital as at the date of this report.

Independent Auditor

Grant Thornton UK LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 66 to 68 of these financial statements.

The Ordinary business of the meeting includes a resolution (Resolution 8) to be proposed to authorise the directors to issue and allot new shares up to an aggregate nominal amount of £414,578 representing approximately 10 per cent of the share capital of the Company in issue as at 28 March 2013 (excluding treasury shares). The directors believe this to be in the Company's interest, as from time to time the Company is approached by persons interested in purchasing new shares and if so authorised the directors will be able to respond positively to such applications.

Also included is a special resolution (Resolution 9) proposed to empower the directors to allot shares up to an aggregate nominal amount of £414,578 representing approximately 10 per cent of the issued share capital of the Company as at 28 March 2013 (excluding treasury shares), without regard to any rights of pre-emption on the part of the existing Shareholders.

VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements for VCTs. PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio under the instruction of the Fund Manager to ensure legislative requirements are properly assessed.

Events After the Balance Sheet Date

Since the year end the Company has disposed of its holding in AIM quoted Tikit Group plc, supplier of enterprise software to UK legal practices, on its trade sale to British Telecommunications plc which completed in January 2013. The Company received £0.27 million of cash proceeds for the sale of its shares, representing a profit on original cost of £0.08 million.

In March 2013 a further investment of £0.07 million was made into existing portfolio company PowerOasis Limited, provider of energy management solutions to telecoms infrastructure operators. This investment was part of a significant \$5 million investment round led by a strategic trade investor.

Following the acquisition of May Gurney Integrated Services plc by Costain Group plc on 26 March 2013 the Company disposed of its full shareholding of 39,000 shares for £2.42 per share raising total proceeds of £0.09 million.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under

company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The financial statements are published at www.yfmep.com, which is a website maintained by the Company's Fund Manager. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and that each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The directors confirm, to the best of their knowledge, that:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the business review included within the Chairman's Statement, Fund Manager's Review and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that it faces.

Corporate Governance

The Board is committed to the principle and application of sound corporate governance and confirms that the Company has taken steps, appropriate to a venture capital trust and relevant to its size and operational complexity, to comply with The UK Corporate Governance Code, June 2010 (a copy of which can be found on the website of the Financial Reporting Council at www.frc.org.uk).

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the provisions of the UK Corporate Governance Code and the Directors' Report and the Directors' Remuneration Report describe how the principles identified in the Code have been applied during the year, except where disclosed below.

The Board has complied throughout the year, and up to the date of this report, with The UK Corporate Governance Code, except for those provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning the Chairman's independence.

Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Fund Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are

reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board meets at least quarterly and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

Board Composition

The Board consists of three non-executive directors, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although The UK Corporate Governance Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company, are satisfied that Richard Last fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 28.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

Boardroom Diversity

The Board is committed to ensuring that the Company is run in the most effective manner. Consequently the Board monitors the diversity of all directors to ensure an appropriate level of experience and qualification.

The Board believes in the value and importance of diversity in the boardroom but does not consider that it is appropriate or in the interests of the Company and its Shareholders to set prescriptive targets for gender or nationality on the Board.

Diversity of thought, experience, and approach are all important and the directors will always seek to appoint on merit against objective criteria.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by Shareholders. Thereafter, it is the Board's policy that a director's appointment will run for a term of one year until the next Annual General Meeting. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek a further term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of The UK Corporate Governance Code, including the need to refresh the Board and its Committees.

The Board seeks to maintain a balance of skills and the directors are satisfied that

as currently composed the balance of experience and skills of the individual directors is appropriate for the Company in particular with regards to investment appraisal and investment risk management.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting. There are no set minimum notice periods for Mr R Last or Mr R M Pettigrew, though Mr P C Waller's appointment is terminable by him or the Company on three months' notice.

The Board recommends the re-election of Mr P C Waller, Mr R M Pettigrew and Mr R Last at this year's Annual General Meeting, because of their commitment, experience and continued contribution to the Company.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table above details the number of Board, Audit Committee and Allotment Committee meetings attended by each director. There were no Nominations Committee meetings held in the year.

During the year there were ten formal Board meetings, two Audit Committee meetings, and five Allotment Committee meetings. The directors met via telephone conferences on four other occasions.

Training and Appraisal

On appointment, the Fund Manager and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in legal and regulatory requirements that affect the Company and its directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to VCTs.

The performance of the Board has been evaluated in respect of the financial year ended 31 December 2012. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

Meetings and Committees

Director	R Last	P C Waller	R M Pettigrew
Telephone conference	4	4	4
Board meetings attended	10	9	10
Audit Committee meetings attended	2	2	2
Allotment Committee meetings attended	5	3	3
Total	21	18	19

The factors taken into account were based on the relevant provisions of The UK Corporate Governance Code and included the attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution. Particular attention is paid to those directors who are due for re-appointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that they continue to show commitment to the role. The independent directors have similarly appraised the performance of the Chairman. They considered that the performance of Mr Richard Last continues to be effective and that he continues to demonstrate a commitment to the role.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 39 and 40.

Audit Committee

The Audit Committee consists of Mr R Last, Mr R M Pettigrew and Mr P C Waller and meets at least twice each year. The directors consider that it is appropriate that the Chairman of the Committee should be Richard Last. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Audit Committee reviews the actions and judgements of management in relation to the interim and annual financial statements and the Company's compliance

with The UK Corporate Governance Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control and risk management systems, receives information from the Fund Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor.

Representatives of the Company's auditor attend the Audit Committee meeting at which the draft Annual Report and financial statements are considered. The directors' statement on the Company's system of internal control is set out below.

The Audit Committee considers the independence and objectivity of the auditor on an annual basis. The Audit Committee considers that the independence and objectivity of the auditor has not been impaired or compromised.

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting, and also on the website of the Fund Manager at www.yfmep.com.

Nominations Committee

The Company has a Nominations Committee which consists of Mr R Last, Mr R M Pettigrew and Mr P C Waller, all of whom are considered by the Board to be independent of the Fund Manager. The Chairman of the Board acts as Chairman of the Committee.

In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Investment Committee

The Board has determined that due to the investment procedures in place, in its opinion there is no role for an independent Investment Committee.

Allotment Committee

With regards to the allotment of new issues of shares, the Board generally operates through a Committee of any two directors which meets as and when required to formally approve the allotment of shares, unless it is an allotment of shares under the Company's dividend re-investment scheme ("DRIS"). Following a decision by the Board on 27 July 2011, allotments of shares under DRIS can be made by a committee of any one director.

Relations with Shareholders

The Board regularly monitors the Shareholder profile of the Company. It aims to provide Shareholders with a full understanding of the Company's activities and performance, and reports formally to Shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by the quarterly publication, through the London Stock Exchange, of the Net Asset Value of the Company, and the daily publication of the Company's quoted share price.

All Shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Fund Manager are available in person to meet with and answer Shareholders' questions. In addition representatives of the Fund Manager periodically hold Shareholder workshops which review the Company's performance and industry developments and which give Shareholders a further opportunity to meet members of the Board and CEO's of some of the investee companies. During the year the Company's broker and the Fund Manager have held regular discussions with Shareholders. The directors are made fully aware of their views. The Chairman and directors make themselves available as and when required to address Shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 28.

The Company's Annual Report is published in time to give Shareholders at least 21 clear days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 28. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

Internal Control and Risk Management

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011 and 16 November 2012, the executive functions of the Company have been subcontracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- a clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company;
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager;
- regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- regular reviews of compliance with the venture capital trust regulations to retain VCT status; and
- the Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Fund Manager with a review of performance. Additional information is supplied on request.

The Board confirms that procedures to implement the guidance detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 were in place throughout the year ended 31 December 2012 and up to the date of this report.

The Board acknowledges that it is responsible for the Company's system of internal control and risk management and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Guidance (being the Internal Control Guidance for Directors on the Combined Code 2005).

In particular the Board, together with the Audit Committee, is responsible for overseeing and reviewing internal controls concerning financial reporting. In addition to those controls sub-contracted to the Fund Manager as listed above, the following controls have been in place throughout the year:

- a robust system of internal control is maintained by the Fund Manager over the preparation and reconciliation of investment portfolio valuations;
- monthly reconciliation of assets held as fixed income securities and cash;
- independent review of the valuations of portfolio investments by the Board (quarterly) and the external auditor (annually);
- the Audit Committee review of financial reporting and compliance (as set out on page 35; and
- the Board reviews financial information including the Annual Report, Interim Report and Interim Management Statements prior to its external communication.

The Board has reviewed the effectiveness of the Company's systems of internal control and risk management for the year and up to the date of this report. The Board is of the opinion that the Company's systems of internal, financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

Conflicts of Interest

The directors have declared any conflicts or potential conflicts of interest to the Board of directors which has the authority to authorise such situations if appropriate. The Company Secretary maintains the Register of Directors' Interests which is reviewed quarterly by the Board, when changes are notified, and the directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest which have been approved by the Board do not take part in discussions or decisions which relate to any of their conflicts.

Anti-Bribery and Corruption Policy

The Company has adopted 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 Fund 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 Fund Manager and its other service providers.

Corporate Governance

The Company delegates responsibility for monitoring its investments to YFM Private Equity Limited whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which its clients invest. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of an investee company's performance in accordance with best practice in the private equity sector.

Going Concern

The Company's business activities, liquidity position and factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Fund Manager's Review. In addition notes 19 and 20 of the financial statements describe the Company's objectives, policies and processes for managing capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit and liquidity risk.

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. The directors believe these factors have placed the Company in a strong position to take advantage of new investment opportunities despite the uncertain economic outlook and with this in mind have sought to further increase the investment capacity of the Company this year.

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations for the foreseeable future. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the financial statements.

Investment Objectives

The investment objective of the Company is to achieve long term investment returns for private investors, including tax free dividends.

Investment Policy

The investment policy of the Company is to create a portfolio that blends a mix of companies operating in more established technology industries with those that offer opportunities in the development and application of innovation.

Investment in Securities

During the year the Company has targeted investments in UK businesses across a range of sectors including but not limited to Industrial, Telecommunications, Software and IT, Healthcare, Retail and Consumer Products in VCT qualifying and non qualifying unquoted and AIM quoted securities. Although the majority of investments will be in equities, in appropriate circumstances preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

VCT Regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Investments are made in accordance with the VCT legislation outlined on page 31.

Borrowing Requirements

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

Co-Investment

Typically the Company invests alongside other venture capital funds, such as syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this Annual Report. Co-investments are detailed in note 7 to the financial statements on page 55.

Management

The Board has delegated the management of the investment portfolio to the Fund Manager. The Fund Manager is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue and Customs clearance is obtained for approval as a qualifying VCT investment.

The Board reserves to itself the taking of all investment and divestment decisions save in respect of companies whose shares are quoted on AIM where dealing discretion levels are authorised by the Board and executed by the Fund Manager.

The Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from the Fund Manager as to the trading and financial position of each investee company and members of the investment team regularly attend Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can ensure that the VCT status of the Company is maintained and take corrective action where appropriate.

In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the Shareholders as a whole in view of its experience in managing VCT's and in making and exiting investments of the kind falling within the Company's investment policy.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in a portfolio of Government stocks or other similar fixed interest securities. Reporting to the Fund Manager, these securities are managed by Brewin Dolphin on a discretionary basis, and the Board receives regular reports on the make-up and market valuation of the portfolio. At the year end £0.9 million was held in this fund. In addition the Fund Manager also invests surplus funds in fixed rate bank deposits. At the year end £3.54 million was held in an interest bearing account with The Royal Bank of Scotland Plc and a further £6.0 million was held with Lloyds Bank Plc an analysis of which is shown in note 15 of the financial statements on page 60.

Financial Instruments

Further information on financial instruments is provided in note 19 to the financial statements.

Financial Assets

Investments made in suitable qualifying holdings will predominantly comprise ordinary shares with, in some instances, either fixed rate coupon preference shares or debenture loans. Each investment is valued in accordance with the policy set out on page 27 of this Annual Report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date.

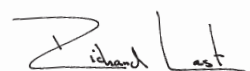
The Company invests in financial assets to comply with the VCT legislation and provide capital growth for Shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company will have the option of repaying earlier. In some instances the redemption may carry a premium repayment.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

Details of financial assets held at 31 December 2012 can be found in the Fund Manager's Review and notes 7 and 19 to these Financial Statements.

This report was approved by the Board on 28 March 2013 and signed on its behalf by



Richard Last
Chairman
BSC VCT2 plc
Registered number 4084003

Directors' Remuneration Report

The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee.

Directors and their Interests

Table A

	Number of ordinary shares at	
	31 December 2012	31 December 2011
R Last	115,972	43,987
R M Pettigrew	54,292	41,858
P C Waller	14,706	7,224

Shares subscribed for and allotted during the year ended 31 December 2012

Table B

	Number of ordinary shares
R Last	71,985
R M Pettigrew	12,434
P C Waller	7,482

Shares subscribed for since Year End

Table C

	Number of ordinary shares
R Last	4,940
R M Pettigrew	–
P C Waller	2,450

Directors and their Interests

The directors of the Company at 31 December 2012 and their beneficial interests in the share capital of the Company (including those of immediate family members) are shown in Table A.

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

During the year shares were subscribed for and allotted to the directors of the Company as part of the 2011-12 tax year fund raising as shown in Table B.

During the year R M Pettigrew subscribed for a further 5,059 ordinary shares pursuant to the joint offers for subscription (further details of which are set out in the Chairman's Statement). This subscription was approved and the aforementioned number of shares were allotted to Mr Pettigrew on 31 December 2012.

In addition to the above, the directors have since the year end committed to subscribe for the new ordinary shares under the current joint offers for subscription as shown in Table C, which will be allotted on 5 April 2013 and 30 April 2013 (depending on which

tax year the subscriptions relate to) unless there is an early allotment under the joint offers or the joint offers become fully subscribed and close early.

Brief biographical notes on the directors are given on page 28. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below and no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves office.

The Company had no employees in the year, or in 2011.

Administration

YFM Private Equity Limited has acted as Fund Manager and performed administrative and secretarial duties for the Company since 28 November 2000. The principal terms of the agreement are set out in note 3 to the financial statements. YFM Private Equity Limited is authorised and regulated by the Financial Services Authority.

Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity Limited and Chord Capital Limited (formerly Generics Asset Management Limited) have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of ordinary shares) equivalent to 20 per cent of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per ordinary share exceeds 120p per ordinary share on that same day multiplied by the number of ordinary shares in issue and the shares under option (if any). Pursuant to a deed of variation dated 16 November 2012, approved by the general meeting of the Company held on 18 December 2012, the subscription rights are exercisable in the ratio 95:5 between YFM Private Equity Limited

Total fees paid (audited)

	2012 £	2011 £
R Last	31,500	31,500
R M Pettigrew	18,000	18,000
P C Waller	18,000	18,000
	67,500	67,500

and Chord Capital Limited. This has been changed in order to better reflect the level of input in respect of the Company's performance witnessed in recent years. No shares have been issued in 2012 or 2011 under this agreement. By a deed of assignment dated 19 December 2004 (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 Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies.

Pursuant to the publication on 16 November 2012 of the joint offers for subscription Prospectus, arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of the shares issued by the Company under the Offer.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £67,500 (2011: £67,500) all of which was paid to three (2011: three) individuals for services as directors and none of which was paid to third parties in respect of directors' services.

The total fees paid in respect of individual directors were as shown in the table above.

There are no executive directors (2011: none).

It is the Company's policy not to provide any performance related emoluments, benefits in kind, any other emoluments or pension contributions to any director. No director is entitled to shares under any share option or long-term incentive schemes.

The 'Basic Remuneration' section is the only section of the Directors' Remuneration Report subject to audit. All other sections are not subject to audit.

Remuneration Policy

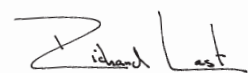
The Board's policy is that the remuneration of non-executive directors should reflect time spent and the responsibility borne by the directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The levels of directors' fees paid by the Company for the year ended 31 December 2012 were agreed during the year.

The Company's policy is to pay directors monthly in arrears, to the directors personally or to a third party as requested by any director.

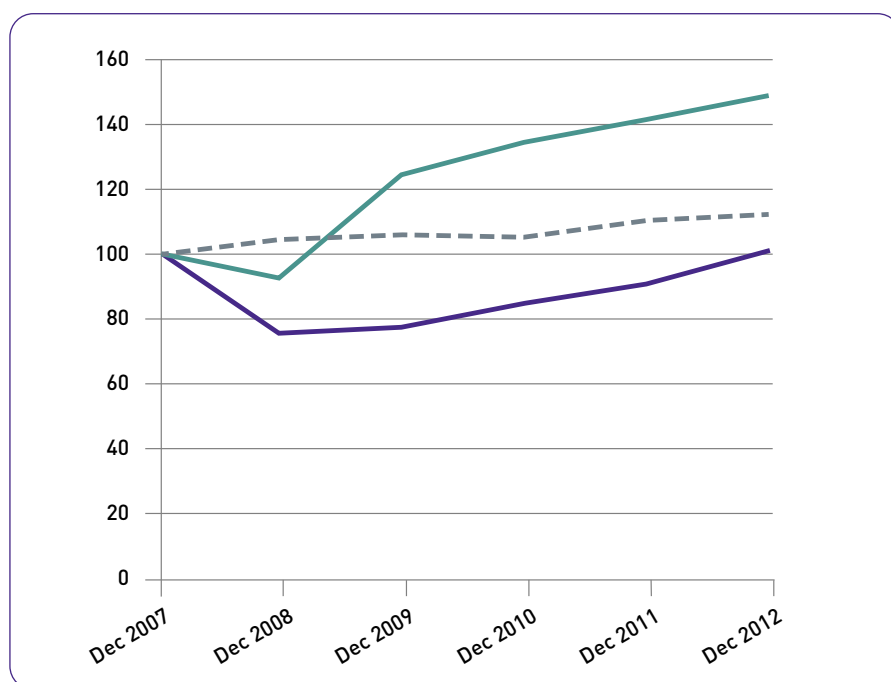
Company Performance

The graph below shows a comparison over the last five years of the movements in both the Company's Share Price Total Return (assuming all dividends are re-invested) and the Share Price Total Return for approximately 60 Generalist VCTs as published by the Association of Investment Companies. The directors consider this to be the most appropriate published index on which to report on comparative performance. Changes in the Company's Net Asset Value Total Return are included on the graph as the Board believes this gives a fairer representation of the Company's long term value to Shareholders. Net Asset Value Total Return is calculated by reference to the Net Asset Value and cumulative dividends paid (see note 13 of these financial statements) excluding tax reliefs received by Shareholders.

This report was approved by the Board on 28 March 2013 and signed on its behalf by



Richard Last
Chairman



— VCT Generalist Share Price Total Return
— Share Price Total Return
- - Net Asset Value Total Return

Independent Auditor's Report

To the members of British Smaller Companies VCT2 plc

We have audited the financial statements of British Smaller Companies VCT2 plc for the year ended 31 December 2012, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on pages 33 to 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 37, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

Paul Houghton

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
28 March 2013

Statement of Comprehensive Income

For the year to 31 December 2012

	Notes	2012			2011		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	–	1,662	1,662	–	225	225
(Losses) profits on investments held at fair value	7	–	(622)	(622)	–	1,112	1,112
Income	2	594	–	594	349	–	349
Administrative expenses:							
Fund Management fee		(116)	(346)	(462)	(86)	(259)	(345)
Other expenses		(320)	–	(320)	(301)	–	(301)
	3	(436)	(346)	(782)	(387)	(259)	(646)
Profit (loss) before taxation		158	694	852	(38)	1,078	1,040
Taxation	4	(4)	4	–	–	–	–
Profit (loss) for the year		154	698	852	(38)	1,078	1,040
Total comprehensive income (loss) for the year		154	698	852	(38)	1,078	1,040
Basic and diluted earnings (loss) per ordinary share	6	0.43p	1.96p	2.39p	(0.17)p	4.92p	4.75p

The accompanying notes on pages 47 to 65 are an integral part of these financial statements.

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary revenue and capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

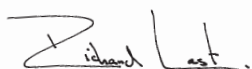
Balance Sheet

At 31 December 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Investments		11,363	10,209
Fixed income government securities		912	1,618
Financial assets at fair value through profit or loss	7	12,275	11,827
Trade and other receivables	8	198	65
		12,473	11,892
Current assets			
Trade and other receivables	8	423	242
Cash on fixed term deposit		7,048	–
Cash and cash equivalents	9	7,484	4,076
		14,955	4,318
Liabilities			
Current liabilities			
Trade and other payables	10	(276)	(228)
Net current assets		14,679	4,090
Net assets		27,152	15,982
Shareholders' equity			
Share capital	11	4,271	2,426
Share premium account		14,806	4,427
Capital redemption reserve		88	88
Other reserve		2	2
Merger reserve		5,525	5,525
Capital reserve		3,154	2,630
Investment holding losses		(4,919)	(3,665)
Special reserve		4,071	4,255
Revenue reserve		154	294
Total Shareholders' equity		27,152	15,982
Net Asset Value per ordinary share	12	65.5p	68.5p

The accompanying notes on pages 47 to 65 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 28 March 2013 by



Richard Last
Chairman

Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital	Share premium account	*Other reserves	Merger reserve	Capital reserve	Investment holding (losses) gains	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2010	1,785	810	90	5,525	3,587	(4,763)	4,463	332	11,829
Revenue return for the year	-	-	-	-	-	-	-	(38)	(38)
Capital expenses	-	-	-	-	(259)	-	-	-	(259)
Investment holding gain on investments held at fair value	-	-	-	-	-	1,112	-	-	1,112
Realisation of investments in the year	-	-	-	-	225	-	-	-	225
Total comprehensive income for the year	-	-	-	-	(34)	1,112	-	(38)	1,040
Issue of share capital	640	3,862	-	-	-	-	-	-	4,502
Issue costs	-	(250)	-	-	-	-	-	-	(250)
Purchase of own shares	-	-	-	-	-	-	(208)	-	(208)
Issue of shares – DRIS	1	5	-	-	-	-	-	-	6
Dividends	-	-	-	-	(937)	-	-	-	(937)
Total transactions with owners	641	3,617	-	-	(937)	-	(208)	-	3,113
Realisation of prior year investment holding gains	-	-	-	-	14	(14)	-	-	-
Balance at 31 December 2011	2,426	4,427	90	5,525	2,630	(3,665)	4,255	294	15,982
Revenue return for the year	-	-	-	-	-	-	-	154	154
Capital expenses	-	-	-	-	(342)	-	-	-	(342)
Investment holding loss on investments held at fair value	-	-	-	-	-	(622)	-	-	(622)
Realisation of investments in the year	-	-	-	-	1,662	-	-	-	1,662
Total comprehensive income for the year	-	-	-	-	1,320	(622)	-	154	852
Issue of share capital	1,828	11,015	-	-	-	-	-	-	12,843
Issue costs**	-	(726)	-	-	-	-	-	-	(726)
Purchase of own shares	-	-	-	-	-	-	(184)	-	(184)
Issue of shares – DRIS	17	90	-	-	-	-	-	-	107
Dividends	-	-	-	-	(1,428)	-	-	(294)	(1,722)
Total transactions with owners	1,845	10,379	-	-	(1,428)	-	(184)	(294)	10,318
Realisation of negative goodwill	-	-	-	-	106	(106)	-	-	-
Realisation of prior year investment holding gains	-	-	-	-	526	(526)	-	-	-
Balance at 31 December 2012	4,271	14,806	90	5,525	3,154	(4,919)	4,071	154	27,152

The accompanying notes on pages 47 to 65 are an integral part of these financial statements.

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants and the capital redemption reserve was created for the purchase and cancellation of own shares.

**Issue costs include both fundraising costs and costs incurred from the Company's dividend re-investment scheme.

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 special reserve was created following the approval of the Court and a resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company. The capital reserve includes gains and losses compared to cost on the realisation of investments, capital expenses, together with the related taxation effect and capital dividends paid to Shareholders. This is a distributable reserve. The investment holding (losses) gains reserve includes increases and decreases in the valuation of investment held at fair value. This is a non-distributable reserve.

The special reserve, capital reserve and revenue reserve are all distributable reserves. These reserves total £7,379,000 (2011: £7,179,000) representing an increase of £200,000 (2011: £1,203,000 decrease) during the year. This change arises from the revenue profit in the year of £154,000 (2011: £38,000 loss), movements in the capital reserve relating to the realisation of investments and capital expenses of £1,846,000 profit (2011: £20,000 loss), dividends of £1,722,000 (2011: £937,000), purchase of shares of £184,000 (2011: £208,000) and the realisation of negative goodwill of £106,000 (2011:nil). The directors also take into account the level of the investment holding (losses) gains reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 £000	2011 £000
Net cash outflow from operating activities	14	(354)	(174)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	7	(4,867)	(3,970)
Proceeds from sale of financial assets at fair value through profit or loss	7	5,239	4,276
Cash placed on fixed term deposit		(7,048)	–
Deferred consideration	7	99	322
Net cash (outflow) inflow from investing activities		(6,577)	628
Cash flows from financing activities			
Issue of share capital		12,743	4,502
Issue costs		(605)	(250)
Purchase of own shares		(184)	(208)
Dividends paid		(1,615)	(931)
Net cash inflow from financing activities		10,339	3,113
Net increase in cash and cash equivalents		3,408	3,567
Cash and cash equivalents at the beginning of the year		4,076	509
Cash and cash equivalents at the end of the year	9, 15	7,484	4,076

The accompanying notes on pages 47 to 65 are an integral part of these financial statements.

Notes to the Financial Statements

For the year to 31 December 2012

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost convention 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 in January 2009 (SORP) to the extent that they do not conflict with IFRSs as adopted by the European Union.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. None of the standards and amendments to standards mandatory for the first time for the financial year commencing 1 January 2012 have had an impact on the preparation of the financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, IFRS 12, IFRS 13, IAS 1, IAS 19, IAS 27, IAS 28 and IAS 32. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the financial statements.

Financial Assets held at Fair Value through Profit or Loss

Financial assets designated as at fair value through profit or loss 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.

Investments in quoted Government securities are classified at fair value through profit and loss under the criteria given above. They are classified as non-current assets as they do not meet the definition in IAS 7 "Statement of cash flows" of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. These are valued at market bid prices.

Transaction costs on purchases are expensed immediately through the Statement of Comprehensive Income.

All investments are measured at fair value 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.

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial instruments: Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines issued in September 2010. A detailed explanation of the valuation policies of the Company is included on page 27.

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, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as required by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', which give exemptions from equity accounting for venture capital organisations.

1. Principal Accounting Policies (continued)

Under IAS 27 “Consolidated and separate financial statements” control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power by a number of means. The Company does not hold more than 50 per cent of the equity of any of the companies within the portfolio. In addition, 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.

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where interest or a redemption premium is payable at redemption then it is only recognised as income once receipt is reasonably certain. Until this point it is accrued daily and included within the capital valuation of the investment (and thus classified under ‘Gain or loss on investments held at fair value’ in the Statement of Comprehensive Income).

Expenses

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

Tax relief is allocated to capital using a marginal basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand and investments in high quality liquidity funds. These funds are classified under cash equivalents as they meet the definition in IAS 7 ‘Cash flow statements’ 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.

Capital Reserve

This reserve includes gains and losses compared to cost on the disposal of investments and expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policy. Also deducted are capital dividends paid to Shareholders.

Investment Holding (Losses) Gain Reserve

This reserve includes increases and decreases in the valuation of investments held at fair value.

Special Reserve

The special reserve was created following the approval of the Court and a resolution of the Shareholders in May 2003 to cancel the Company’s share premium account. The special reserve is a distributable reserve and is available for other corporate purposes of the Company.

Taxation

Due to the Company’s status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 274 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or investment holding gain on the Company’s investments which arise. 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.

Foreign Exchange

Foreign currency assets at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of each transaction. Profit or losses on exchange, together with differences arising on the translation of foreign currency assets, are taken through profit or loss for the year.

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.

1. Principal Accounting Policies (continued)

Segmental Reporting

In accordance with IFRS 8 and the criteria for aggregating reportable segments the directors are of the opinion that the Company has engaged in a single reportable segment of investing in equity and debt securities and therefore no segmental reporting is provided.

Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

2. Income

	2012 £000	2011 £000
Dividends from unquoted companies	8	11
Dividends from AIM quoted companies	44	37
Interest on loans to unquoted companies	339	146
Fixed interest Government securities	20	88
Income from investments held at fair value through profit or loss	411	282
Interest on bank deposits	183	67
	594	349

The above excludes £52,000 of income in relation to loan interest, which has been fully provided for.

3. Administrative Expenses

	2012 £000	2011 £000
Fund management fee	462	345
Other expenses:		
Administration fee	57	54
Directors' remuneration (comprises only short term benefits including social security contributions)	75	75
Auditor's remuneration – audit fees (excluding irrecoverable VAT)	17	17
General expenses	171	155
	782	646

No fees are payable to the auditor in respect of other services supplied pursuant to legislation (2011: £nil).

In line with the Association of Investment Companies' (AIC's) recommended methodology, the Company's "ongoing charges percentage" calculated as the Annualised ongoing charges (excluding irrecoverable VAT and trail commission)/Annualised undiluted Net Asset Value in the period, is currently 2.82 per cent (2011: 3.78 per cent). This methodology replaced the Total Expense Ratio (TER%) in June 2012 as the AIC's recommended operational expenses benchmark.

The Total Expense Ratio (TER%) calculated as the total fund costs (less trail commission and irrecoverable VAT)/Total Net Assets is currently set at 3.25 per cent, whereby over this value excess costs are absorbed by the Fund Manager. The current TER% is 2.65 per cent (2011: 3.74 per cent).

3. Administrative Expenses (continued)

YFM Private Equity Limited provides fund management services to 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 and 16 November 2012. The agreement may be terminated by not less than twelve months' notice given by either party at any time.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2.5 per cent of Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. The fund management fee is allocated between capital and revenue as described in note 1;
- Pursuant to a deed of variation dated 26 October 2011 the management fee will be reduced to 1.25 per cent per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million and to 2.0 per cent in respect of any Net Asset Value of the Company in excess of £26.667 million;
- Pursuant to the deed of variation dated 16 November 2012, if the Net Asset Value of the Company exceeds £20 million, YFM Private Equity Limited shall bear the annual operating costs of the Company (including the management 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 3.25 per cent of the Net Asset Value of the Company; and
- Under the same agreement 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.

The total remuneration payable to YFM Private Equity Limited in the period was £519,000 (2011: £399,000).

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 39, YFM Private Equity Limited and Chord Capital Limited (formerly Generics Asset Management Limited) have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of ordinary shares in the Company) equivalent to 20 per cent of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per ordinary share exceeds 120 pence per ordinary share on that same day multiplied by the number of ordinary shares in issue and the shares under option (if any). Following a deed of variation dated 16 November 2012 the subscription rights are exercisable in the ratio 95:05 (previously (59:41) between YFM Private Equity Limited and Chord Capital Limited. As at 31 December 2012 the total of cumulative cash dividends paid and mid market price was 90.50 pence per ordinary share. No shares have been issued in either year under this agreement.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 40 under the heading "Basic Remuneration".

4. Taxation

	2012			2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Corporation tax at 20 per cent (2011: 21 per cent)	–	–	–	–	–	–
Profit (loss) before taxation	158	694	852	(38)	1,078	1,040
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 20 per cent (2011: 21 per cent)	32	139	171	(8)	216	208
Effect of:						
UK dividends received	(10)	–	(10)	(10)	–	(10)
Non taxable profits on investments	–	(208)	(208)	–	(267)	(267)
Excess management expenses	(18)	65	47	18	51	69
Tax charge (credit)	4	(4)	–	–	–	–

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

Deferred tax assets of £500,000 calculated at 20 per cent (2011: £452,000 calculated at 20 per cent) in respect of unrelieved management expenses (£2.502 million as at 31 December 2012 and £2.226 million as at 31 December 2011) 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:

	2012			2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2011 of 2.0p (2010 year end: 2.0p) per ordinary share	294	472	766	–	467	467
Interim dividend for the year ended 31 December 2012 of 2.0p (2011: 2.0p) per ordinary share	–	765	765	–	470	470
Special dividend of 0.5p per ordinary share	–	191	191	–	–	–
	294	1,428	1,722	–	937	937
Shares issued under DRIS			(107)			(6)
Dividends paid in Statement of Cash Flows			1,615			931

The final year-end dividend of 2.0 pence per ordinary share in respect of the year to 31 December 2011 was paid on 22 May 2012 to Shareholders on the register at 20 April 2012.

The interim dividend of 2.0 pence per ordinary share and special dividend of 0.5 pence per ordinary share were paid on 26 October 2012 to Shareholders on the register as at 28 September 2012.

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2012 is proposed. This dividend has not been recognised in the year ended 31 December 2012 as the obligation did not exist at the balance sheet date.

6. Basic and Diluted Earnings (Loss) per Ordinary Share

The basic and diluted earnings (loss) per ordinary share is based on the profit after tax attributable to Shareholders of £852,000 (2011: £1,040,000 profit) and 35,591,107 (2011: 21,906,793) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings (loss) per ordinary share is based on the profit for the year attributable to Shareholders of £154,000 (2011: £38,000 loss) and 35,591,107 (2011: 21,906,793) 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 £698,000 (2011: £1,078,000 profit) and 35,591,107 (2011: 21,906,793) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 18,450,681 ordinary shares. The Company has also repurchased 323,639 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of ordinary shares for the period that they were treasury shares.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in Note 3. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2012 or 31 December 2011. Consequently, basic and diluted earnings per ordinary share, basic and diluted revenue return per ordinary share and basic and diluted capital return per ordinary share are the same for the years ended 31 December 2012 and 31 December 2011.

7. Financial Assets at Fair Value Through Profit or Loss

IFRS 7, 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 regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length 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 or government 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.

There have been no transfers between these classifications in the period (2011: none). The change in fair value for the current and previous year is recognised through profit and loss.

All items held at fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 December 2012 are summarised as follows:

IFRS 7 measurement classification	Level 3*	Level 1	Level 1	Level 1	Level 1
	Unquoted Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	9,139	2,251	11,390	1,523	12,913
Opening investment holding (loss) gain	(804)	(377)	(1,181)	95	(1,086)
Opening fair value at 1 January 2012	8,335	1,874	10,209	1,618	11,827
Additions at cost	4,001	433	4,434	433	4,867
Capitalised interest	11	–	11	–	11
Disposal proceeds	(3,607)	(505)	(4,112)	(1,127)	(5,239)
Net profit on disposal	1,405	31	1,436	(5)	1,431
Change in fair value in the year on assets held at 31 December 2012	(788)	173	(615)	(7)	(622)
Closing fair value at 31 December 2012	9,357	2,006	11,363	912	12,275
Closing cost	11,528	2,092	13,620	888	14,508
Closing investment holding (loss) gain	(2,171)	(86)	(2,257)	24	(2,233)
Closing fair value at 31 December 2012	9,357	2,006	11,363	912	12,275

*All of the changes in fair value during the year to level 3 investments relate to assets held at the year end.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Movements in investments at fair value through profit or loss during the year to 31 December 2011 are summarised as follows:

IFRS 7 measurement classification	Level 3*	Level 1		Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	9,090	1,403	10,493	3,974	14,467
Opening investment holding (loss) gain	(3,387)	(167)	(3,554)	6	(3,548)
Opening fair value at 1 January 2011	5,703	1,236	6,939	3,980	10,919
Additions at cost	1,700	1,079	2,779	1,191	3,970
Capitalised interest	5	–	5	–	5
Disposal proceeds	(292)	(330)	(622)	(3,654)	(4,276)
Net profit on disposal	–	75	75	22	97
Change in fair value in the year on assets held at 31 December 2011	1,219	(186)	1,033	79	1,112
Closing fair value at 31 December 2011	8,335	1,874	10,209	1,618	11,827
Closing cost	9,139	2,251	11,390	1,523	12,913
Closing investment holding (loss) gain	(804)	(377)	(1,181)	95	(1,086)
Closing fair value at 31 December 2011	8,335	1,874	10,209	1,618	11,827

*All of the changes in fair value during the year to level 3 investments relate to assets held at the year end.

The movements in level 1 and level 3 instruments, as defined earlier in this note, are summarised below.

	Level 1 £000	Level 3 £000	Total £000
Opening fair value at 1 January 2012	3,492	8,335	11,827
Additions at cost	866	4,012	4,878
Disposal proceeds	(1,632)	(3,607)	(5,239)
Net profit on disposal	26	1,405	1,431
Change in fair value in the year on assets held at 31 December 2012	166	(788)	(622)
Closing fair value at 31 December 2012	2,918	9,357	12,275

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect the fair value of financial assets held at the price of recent investment, or to adjust earnings multiples.

The standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The portfolio has been reviewed and both downside and upside possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternative the value of the unquoted investments would be £0.87 million or 7.7 per cent lower. Using the upside alternative the value would be increased by £1.74 million or 15.3 per cent.

The total of fair value adjustments below cost made against unquoted investments during the year ended 31 December 2012 amounted to £511,000 (2011: £9,000).

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company. In 2011 there were also no individual reductions.

Fixed income securities are UK Government stocks and are classified as financial assets at fair value through profit or loss. Their use is as temporary holdings until venture capital investment opportunities arise.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

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

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2012	Profit on disposal
	£000	£000	£000	£000
Primal Pictures Limited	1,955	897	1,082	873
Sirigen Group Limited	1,446	517	917	529
Patsystems plc	164	317	155	9
Brady plc	163	104	123	40
RMS Holdings Limited	140	140	140	–
Iomart Group plc	112	50	71	41
Seven Technologies Holdings Limited	64	64	64	–
May Gurney Integrated Services plc	47	106	108	(61)
Tikit Group plc	17	14	16	1
Oxis Energy Limited	4	5	–	4
	4,112	2,214	2,676	1,436
<i>Deferred proceeds:</i>				
Sirigen Group Limited (included in receivables)	110	–	–	110
DxS Limited (included in receivables)	70	–	–	70
Primal Pictures Limited (received in the year)	50	–	–	50
DxS Limited (received in the year)	48	–	65	(17)
Primal Pictures Limited (included in receivables)	18	–	–	18
Total proceeds from quoted and unquoted investments	4,408	2,214	2,741	1,667
Fixed Income Securities	1,127	1,068	1,132	(5)
Total	5,535	3,282	3,873	1,662

The Company may become entitled to receive up to \$169,000 (2011: \$564,000) in respect of the sale of DxS Limited over the period to 2015, in relation to escrow accounts regarding potential liabilities. At the year-end £70,000 (2011: £65,000) was included within non-current receivables in respect of this deferred consideration.

The Company may also become entitled to receive up to \$974,000 in respect of the sale of Sirigen Group Limited over the period to 2016, \$410,00 to escrow accounts regarding potential liabilities and the remainder subject to Sirigen Group Limited achieving specific performance milestones. At the year end £110,000 was included within non-current receivables in respect of deferred considerations.

Additionally the Company may become entitled to receive up to £35,000 in respect of the sale of Primal Pictures Limited over the period to 2013 in relation to escrow accounts regarding potential liabilities. At the year end £18,000 was included within non-current receivables in respect of this deferred consideration.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The following disposals took place in 2011 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2011	Profit on disposal
	£000	£000	£000	£000
Optos plc	74	34	58	16
Group NBT plc	256	197	–	59
Waterfall Services Limited	292	292	292	–
	622	523	350	75
<i>Deferred proceeds:</i>				
DxS Limited (received in the year)	322	–	259	63
DxS Limited (deferred consideration included in receivables)	65	–	–	65
Total proceeds from quoted and unquoted investments	387	–	259	128
Fixed Income Securities	3,654	3,634	3,632	22
Total	4,663	4,157	4,241	225

Significant Interests

At 31 December 2012 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Bagel Nash Group Limited	Retail baker	26,286	Ordinary	5%	40%
Deep-Secure Limited	Security software	50,000	Ordinary	7%	50%
Digital Healthcare Limited	Healthcare	3,137,345	Ordinary	25%	–
DisplayPlan Holdings Limited	Consumer retail	1,225	Ordinary	12%	35%
Ellfin Home Care Limited	Healthcare	27,259	Ordinary	6%	74%
Harvey Jones Holdings Limited	Manufacture/distribution	38,858	Ordinary	3%	30%
Immunobiology Limited	Healthcare		Ordinary	23%	–
Insider Technologies (Holdings) Limited	Computer software	193,200	Ordinary	17%	43%
RMS Group Holdings Limited	Stevedoring/logistics	64,619	Ordinary	3%	31%
Seven Technologies Holdings Limited	Manufacture	500,000	Ordinary	3%	27%
Waterfall Services Limited	Healthcare	25,010	Ordinary	5%	24%

Commonly managed funds refer to those funds also under the management of YFM Private Equity Limited, the Fund Manager to the Company, both on a discretionary and non-discretionary basis.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The Company's Fund Manager, also acts as fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2012 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc	North West Business Investment Scheme	YFM Equity Partners Limited	The Chandos Fund	Total managed in other funds	Total for this Company	Total managed by YFM
	£000	£000	£000	£000	£000	£000	£000
Seven Technologies Holdings Limited	2,398	–	–	2,883	5,281	1,199	6,480
Ellfin Home Care Limited	823	1,098	–	1,774	3,695	317	4,012
Bagel Nash Group Limited	624	–	–	2,600	3,224	416	3,640
Deep-Secure Limited	1,000	–	–	2,000	3,000	500	3,500
Digital Healthcare Limited	–	–	22	–	22	3,072	3,094
Harvey Jones Holdings Limited	777	–	–	2,234	3,011	389	3,400
DisplayPlan Holdings Limited	1,300	–	–	–	1,300	700	2,000
Insider Technologies (Holdings) Limited	1,170	–	–	–	1,170	780	1,950
PowerOasis Limited	375	–	–	1,000	1,375	500	1,875
Bluebell Telecom Group Limited	500	–	–	–	500	500	1000
Waterfall Services Limited	767	–	–	–	767	192	959
Selima Limited	600	–	–	–	600	300	900
TeraView Limited	375	–	–	–	375	375	750
Pressure Technologies plc	425	–	–	–	425	300	725
Vianet Group plc	404	–	–	–	404	243	647
Cambridge Cognition Limited	325	–	–	–	325	240	565
Hargreaves Services plc	416	–	–	–	416	125	541
RMS Group Holdings Limited	180	–	–	250	430	70	500
EKF Diagnostics Holdings plc	252	–	–	–	252	224	476
Tikit Group plc	150	–	–	–	150	184	334
Total	12,861	1,098	22	12,741	26,722	10,626	37,348

In a number of cases the issued ordinary share capital of an investee company is split into different classes of shares and thus the percentages given above do not necessarily represent the Company's (or other commonly managed funds') percentage holding of an investee company's total equity. The Company does not hold more than 50 per cent of the equity of any company in the investment portfolio, either on its own or in conjunction with other commonly managed funds.

8. Trade and Other Receivables

	2012 £000	2011 £000
Non-current assets:		
Accrued income	198	65
Current assets:		
Trade receivables	158	82
Less: Allowances for credit losses on trade receivables	(94)	(42)
Prepayments and accrued income	359	202
	423	242
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	42	–
Additions – charged to Statement of Comprehensive Income	52	42
Write offs	–	–
Allowances as at 31 December	94	42

Trade receivables are assessed for reduction in fair value when older than 90 days or where there is reasonable doubt that payment will be received in due course. As of 31 December 2012, trade receivables of £64,000 (2011: £40,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2012 £000	2011 £000
1 – 3 months	64	40
3 – 6 months	–	–
More than 6 months	–	–

As of 31 December 2012, there was £94,000 of trade receivables (2011: £42,000) impaired and provided for. The ageing of these receivables is as follows:

	2012 £000	2011 £000
1 – 3 months	13	10
3 – 6 months	13	11
6 – 12 months	26	21
More than 12 months	42	–

The carrying amounts of the Company's trade and other receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £64,000 (2011: £40,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2012 £000	2011 £000
Cash at bank	4,984	528
Cash held in liquidity funds	2,500	3,548
	7,484	4,076

10. Trade and Other Payables

	2012 £000	2011 £000
Amounts payable within one year:		
Accrued expenses	276	228
	276	228

11. Called-up Share Capital

	2012		2011	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p Authorised: 75,000,000 (2011: 50,000,000) Issued: 42,710,605 (2011: 24,259,924) including 1,252,761 shares held in treasury (2011: 929,122)	7,500	4,271	5,000	2,426

The movement in the year was as follows:

		Price	Date	Number of shares	Share Capital £000
Total as at 1 January 2012				24,259,924	2,426
Issue of shares	Fundraising	70.50 pence	5 January 2012	3,795,914	380
Issue of shares	Fundraising	70.50 pence	20 March 2012	6,106,906	611
Issue of shares	Fundraising	70.50 pence	5 April 2012	5,080,416	508
Issue of shares	DRIS	63.17 pence	22 May 2012	20,611	2
Issue of shares	Additional issue	63.17 pence	22 May 2012	158,303	15
Issue of shares	DRIS	62.23 pence	26 October 2012	151,836	15
Issue of shares	Fundraising	69.50 pence	31 December 2012	3,136,695	314
As at 31 December 2012 (including treasury shares)				42,710,605	4,271

During the year the Company purchased 323,639 (2011: 363,022) of its own shares and these shares are held in treasury on the balance sheet. Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Buy-Back of Shares'. The treasury shares have been included in calculating the number of ordinary shares in issue at 31 December 2012.

The Company is party to a share based payment arrangement as defined by IFRS 2 'Share based payments'. The details of the arrangement are explained in the "Administration" section of the Directors' Remuneration Report on page 39. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2. No shares have been issued to date under this arrangement.

12. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per ordinary share is calculated on attributable assets of £27,152,000 (2011: £15,982,000) and 41,457,844 (2011: 23,330,802) 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 2012.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in note 3. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2012 or 31 December 2011. Consequently, basic and diluted Net Asset Value per ordinary share is the same for the year ended 31 December 2012 and 31 December 2011.

13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 34.5 pence per ordinary share (2011: 30.0 pence per ordinary share) plus the Net Asset Value as calculated per note 12.

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

	2012 £000	2011 £000
Profit before taxation	852	1,040
Increase in trade and other payables	26	177
Increase in trade and other receivables	(181)	(49)
Gains on disposal of investments in the year	(1,662)	(225)
Losses (profits) on investments held at fair value	622	(1,112)
Capitalised interest	(11)	(5)
Net cash outflow from operating activities	(354)	(174)

Cash movements above include the following:

	2012 £000	2011 £000
Dividends received	44	48
Interest received		
– gilt interest	26	133
– deposit interest	183	8
Total interest	253	189

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2012 £000	Cash flow £000	31 December 2012 £000
Cash at bank	528	4,456	4,984
Cash held in liquidity funds	3,548	(1,048)	2,500
	4,076	3,408	7,484

During the year the amount of £3.548 million previously held as cash held in liquidity funds was reclassified to being held on a fixed term deposit. This deposit matures in June 2013. As this is greater than three months from the balance sheet date it does not meet the definition of cash and cash equivalents and has been shown as a current asset on the face of the balance sheet.

A further £3.5 million is also held in a fixed term account maturing in December 2013. In accordance with the definition of cash and cash equivalents this amount has also been shown as a current asset on the face of the balance sheet.

16. Financial Commitments

At 31 December 2012 the Board had committed a total of £0.68 million for investment into a new portfolio company subject to satisfactory due diligence and legal completion.

17. Related Party Transactions

YFM Equity Partners Limited (formerly YFM Group Limited), the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds investments in Digital Healthcare Limited and Primal Pictures Limited, investee companies of British Smaller Companies VCT2 plc. On 13 August 2012 YFM Equity Partners Limited disposed of its holding in Primal Pictures Limited for which it received £70,990 of proceeds and is entitled to £3,341 of deferred proceeds in the 12 months following the sale. At 31 December 2012, YFM Equity Partners Limited's investment in Digital Healthcare Limited was valued at £21,795 (2011: £21,795).

As at 1 January 2012 Mr Last was a non-executive director of Patsystems plc. Following the trade sale of Patsystems plc to ION Group plc on 26 January 2012 Mr Last resigned from his role as a non-executive director. During the year Mr Last received £12,955 (2011: £39,938) from Patsystems plc in respect of his services.

Mr Pettigrew holds a 0.1 per cent (2011: 0.1 per cent) equity stake in Digital Healthcare Limited.

18. Events after the Balance Sheet Date

Since the year end the Company has disposed of its holding in AIM quoted Tikit Group plc, supplier of enterprise software to UK legal practices, on its trade sale to British Telecommunications plc which completed in January 2013. The Company received £0.27 million of cash proceeds for the sale of its shares, representing a profit on original cost of £0.08 million.

In March 2013 a further investment of £0.07 million was made into existing portfolio company PowerOasis Limited, provider of energy management solutions to telecoms infrastructure operators. This investment was part of a significant \$5 million investment round led by a strategic trade investor.

On 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £12,905,041 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied. Following the cancellation, the total distributable reserves of the Company will increase to £20,284,000.

Following the acquisition of May Gurney Integrated Services plc by Costain Group plc on 26 March 2013 the Company disposed of its full shareholding of 39,000 shares for £2.42 per share raising total proceeds of £0.09 million.

19. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year. The Company classifies its financial assets as either fair value through profit or loss or loans and receivables.

The investments are valued in accordance with the policy stated on page 27.

It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

Investments are made in a combination of equity, fixed rate and variable rate financial instruments so as to comply with VCT legislation and provide potential high future capital growth. Surplus funds are held in fixed rate Government Securities or in high quality liquidity funds until suitable qualifying investment opportunities arise.

In accordance with IAS 39, the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain criteria set out in the standard. No embedded derivatives have been identified by the Company.

The accounting policies for financial instruments have been applied to the items below:

Assets as per balance sheet

	2012		2011	
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss
	£000	£000	£000	£000
Non-current assets				
Financial assets at fair value through profit and loss	–	12,275	–	11,827
Trade and other receivables	198	–	65	–
Current assets				
Cash and cash equivalents	7,484	–	528	–
Cash on fixed term deposit	7,048	–	3,548	–
Trade and other receivables	64	–	40	–
	14,794	12,275	4,181	11,827
Other assets – not financial instruments	359	–	202	–
	15,153	12,275	4,383	11,827

Liabilities as per balance sheet

	2012 Other financial liabilities £000	2011 Other financial liabilities £000
Trade and other payables	(276)	(228)
	(276)	(228)

Assets classified as fair value through profit or loss were designated as such upon initial recognition. The Company has not reclassified financial assets between any of the categories detailed in IAS 39, either in current or prior periods.

19. Financial Instruments (continued)

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

19a Market Risk

Market Price Risk

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

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

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

To manage price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Board. Exposure to any one stock is limited to 20 per cent of the total cost of investments and 25 per cent of total Net Asset Value. The Board seeks to invest in counter-cyclical stocks where these are identified.

18 per cent of the Company's equity investments are quoted on AIM (2011: 18 per cent). A 5 per cent increase in stock prices as at 31 December 2012 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £100,000 (2011: £94,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

82 per cent of the Company's equity investments are in unquoted companies held at fair value (2011: 82 per cent). The valuation methodology for these investments includes the application of externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed element. Investments have been valued in line with the valuation guidelines described on page 27. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £579,000 (2.1 per cent of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by less than 0.1 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in DisplayPlan Holdings Limited which constitutes 5.5 per cent (2011: 9 per cent) in Digital Healthcare Limited of the net assets attributable to the Company's Shareholders. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those that have had their fair value reduced to nil, is 3.0 per cent (2011: 3.0 per cent) of the value of net assets.

Interest Rate Risk

The Company's venture capital investments include £4,326,000 (2011: £1,923,000) of loan stock and preference shares in unquoted companies. The majority of this loan stock is at fixed rates to guard against fluctuations in interest rates. The Company is not exposed to any significant interest rate risk on its loan stock portfolio and is not significantly sensitive to interest rate risk.

The Company holds a number of Fixed Income Government Securities. The value of such holdings is inversely linked to movements in market interest rates and as such this portfolio is subject to interest rate risk. The Board believes this risk to be satisfactorily mitigated through the portfolio's active management on which it receives regular reports, together with the make-up and market valuation of this portfolio.

19. Financial Instruments (continued)

The Company also has some exposure to interest rates as a result of interest earned on bank deposits.

Other financial assets (being accrued income) and other financial liabilities (being accrued expenses) attract no interest and have an expected maturity date of less than one year.

	2012			2011		
	£000	Weighted average interest rate	Weighted average time for which rate is fixed	£000	Weighted average interest rate	Weighted average time for which rate is fixed
		%	Months		%	Months
Fixed rate loan stock and preference shares	4,326	10.15	37	1,923	12.41	30
Government gilts	912	1.99	42	1,618	2.44	41
Cash on fixed term deposit	7,048	2.20	8	–	–	–
Combined	12,286	4.99	21	3,541	7.33	35

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

19b Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding investments total £15,706,000 (2011: £5,779,000) which best represents the maximum credit risk exposure at the balance sheet date.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock and high quality money market funds. The Company does not invest in floating rate instruments other than unquoted loan stock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed above.

The fair value of the loans and receivables is not regarded as having changed due to the changes in credit risk in either year.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. All the assets of the Company which are traded on a recognised exchange are held by Nplus1 Singer Advisory LLP, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Board monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

The cash held by the Company is held across a number of banks to spread the risk. Bankruptcy or insolvency of these banks may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The bank, broker (for the gilts) and money market fund used by the Company are large and reputable. Should the credit quality or the financial position of the banks or fund deteriorate significantly the Fund Manager, gilt and money market managers will move the cash holdings to another bank or fund.

19. Financial Instruments (continued)

The maturity dates of the loan stock portfolio are as follows:

	2012 £000			2011 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	191	1,294	2,513	798	–	1,142

	2012 £000			2011 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest	64	–	–	40	–	–
Capital repayment	–	–	–	–	–	–

19c Liquidity Risk

The risk to the Company relates to liabilities which fall due within one year. These liabilities are deemed immaterial and as such the risk associated with them is minimal.

The Company needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in a mixture of Government gilts and high quality liquidity funds, which invest in a pool of highly rated money market securities. The Company's listed securities are considered to be readily realisable as they relate primarily to Fixed Income Government Securities, which are widely traded. Investments in Government stocks and liquidity funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise.

The Company's liquidity risk is managed on an ongoing basis by the Fund Manager in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Including cash held on deposit 53.5 per cent (2011: 25.5 per cent) of the Company's assets are in the forms of liquid cash and cash equivalents. This falls to 27.5 per cent if the cash held on deposit is not included within the calculation. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material amount of liabilities at the year-end (2011: same).

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 27. Where investments are in quoted stocks, fair value is set at market price. Non-quoted investments are valued in line with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

Price of recent investment, reviewed for change in fair value: the cost of the investment, adjusted for background factors specific to the investment, is taken as a reasonable assessment of fair value for a period of up to one year. During this period performance against budget is monitored for evidence of changes to this initial fair value. Valuations may be re-based following substantial investment by a third party when this offers evidence that there has been a change in fair value.

Earnings multiple: the appropriate sector FTSE multiples are used as a market-based indication of the enterprise value of an investment company. A discount is applied to the multiple by the Fund Manager based on the perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights.

Although permitted by the IPEVC valuation guidelines, other valuation methods have not been used in the year.

20. Capital Management

The Company's objectives when managing capital are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders; and
- to ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified.

The Company has no external debt, consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 December 2012 was £27.15 million (2011: £15.98 million).

At a Shareholder meeting held on 30 August 2011 the Shareholders voted in favour of re-introducing a buy back policy and the rate of discount to Net Asset Value at which the Company's shares are bought back has been set at no more than 15 per cent. During the year the Company purchased 323,639 ordinary shares at an average price of 56.73 pence per ordinary share. These shares are held in treasury.

There have been no changes in capital management objectives or the capital structure of the business from the previous year. The Company is not subject to any externally imposed capital requirements.

Notice of the Annual General Meeting

No: 4084003

BRITISH SMALLER COMPANIES VCT2 PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 33 St James Square, London, SW1Y 4JS on 20 May 2013 at 12:00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS

- (1) That the Annual Report and Accounts for the year ended 31 December 2012 be received.
- (2) That the final dividend of 2.5p per ordinary share for the year ended 31 December 2012 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 December 2012 be approved.
- (4) That Mr P C Waller be re-elected as a director.
- (5) That Mr R M Pettigrew be re-elected as a director.
- (6) That Mr R Last be re-elected as a director.
- (7) That Grant Thornton UK LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.
- (8) That the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £414,578 representing approximately 10 per cent of the share capital in issue as at 28 March 2013 (excluding treasury shares) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the later of the date which is 15 months from the date hereof or the date of the next annual general meeting of the Company, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry. All previous authorities to allot given to the directors, other than the authority granted pursuant to resolution 3 (authority to allot shares in respect of the dividend re-investment scheme) at the general meeting of the Company held on 11 January 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.

SPECIAL RESOLUTION

- (9) That the directors be and are hereby empowered in accordance with section 570(1) of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring, unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's next annual general meeting or the expiry of 15 months following the passing of this resolution, to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 8 above, as if section 561 of the Companies Act 2006 did not apply to such allotment provided that this power is limited to the allotment of equity securities in the Company up to an aggregate nominal amount of £414,578 representing approximately 10 per cent of the issued share capital of the Company as at 28 March 2013 (excluding treasury shares), but so that this authority shall allow the Company to make offers or agreements before the expiry of such powers and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(2) of the Companies Act 2006 as if in this resolution the words "pursuant to the general authority conferred upon the directors in resolution 8 above" were omitted. All previous authorities granted to the directors to allot equity securities as if section 561 of the Companies Act 2006 did not apply, other than the authority granted pursuant to resolution 9 (authority to disapply Section 561 of the Companies Act 2006 to the allotment of equity securities in connection with the dividend re-investment scheme) at the annual general meeting of the Company held on 16 May 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.

BY ORDER OF THE BOARD

KHM Secretarial Services Limited
Secretary
28 March 2013

Registered office: St Martins House, 210-212 Chapeltown Road, Leeds LS7 4HZ

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from www.yfmep.com

Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes to the form of proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a form of proxy must be completed and, signed and with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the form of proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made. If no voting indication is given in the form of proxy, your proxy will vote (or abstain from voting) as they think fit in relation to any matter put to the Annual General Meeting.
- (c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company and a copy of the current articles of association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (weekends and public holidays excluded) from the date of this notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 12pm. on 18 May 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 12pm. on 18 May 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

- (g) As at 28 March 2013, the Company's issued share capital comprised 41,457,844 ordinary shares of 10 pence each with a further 1,252,761 shares held in treasury. Those treasury shares represented 2.93 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share carries one voting right at the Annual General Meeting of the Company and so the total number of voting rights in the Company as at 28 March 2013 was 41,457,844. The website referred to above will include information on the number of ordinary shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) In the case of joint members, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the other joint members.
- (k) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.
- (m) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

BRITISH SMALLER COMPANIES VCT2 PLC

FORM OF PROXY

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 20 May 2013 at 12:00 noon

I/We _____ being a member/members of the above named
Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Annual General
Meeting or (see notes (2), (3) and (4)) _____ of

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 20 May
2013 at 12:00 noon and at any adjournment thereof.

Number of ordinary shares proxy is appointed over _____

Please tick here if this proxy is one of multiple proxy appointments being made (see note 2) ☐

My/our proxy is to vote on the resolutions as indicated below. Please indicate with an 'x' how you wish your vote to be cast. If no voting
indication is given, your proxy will vote or abstain from voting at their discretion.

	FOR	AGAINST	WITHHELD
ORDINARY RESOLUTIONS			
1. To receive the Annual Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 2.5 pence per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a director Mr P C Waller	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Mr R M Pettigrew	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint Grant Thornton UK LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the directors to allot shares (other than pursuant to the dividend re-investment scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL RESOLUTION			
9. To waive pre-emption rights in respect of the allotment of shares (other than pursuant to the dividend re-investment scheme).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature

Dated

2013

Please refer to notes overleaf

Please complete, detach and return the Form of Proxy in the pre-paid envelope provided.



BRITISH SMALLER COMPANIES VCT2 PLC

FORM OF PROXY

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 20 May 2013 at 12:00 noon

NOTES

1. The Notice of the Annual General Meeting is set out on pages 66 to 68 of the Annual Report.
2. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and set out in the Notice of the Annual General Meeting. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Annual General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. To be valid, a Form of Proxy and with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made.
5. Any alterations to the Form of Proxy must be initialled by the person who has signed the Form of Proxy.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
8. In the case of joint Shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion on any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Please complete, detach and return the Form of Proxy in the pre-paid envelope provided.

Advisers to the Company

Fund Manager and Custodian

YFM Private Equity Limited

Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

Registrars

Capita Registrars Limited

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Solicitors

hlw Keeble Hawson LLP

Protection House
16-17 East Parade
Leeds
LS1 2BR

Stockbrokers

Nplus1 Singer Advisory LLP

1 Bartholomew Lane
London
EC2N 2AX

Fixed Interest Securities Adviser

Brewin Dolphin Securities Limited

34 Lisbon Street
Leeds
LS1 4LX

Independent Auditor

Grant Thornton UK LLP

2 Broadfield Court
Sheffield
S8 0XF

VCT Status Adviser

PricewaterhouseCoopers LLP

1 Embankment Place
London
WC2N 6RH

Bankers

The Royal Bank of Scotland plc

27 Park Row
Leeds
LS1 5QB

Lloyds Banking Corporate Markets

40 Spring Gardens
Manchester
M2 1EN

Company Secretary

KHM Secretarial Services Limited

Old Cathedral Vicarage
St James Row
Sheffield
S1 1XA

British Smaller Companies VCT2 plc



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Transforming Small Businesses
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