

British Smaller Companies VCT2 plc

Annual Report for the year ended
31 December 2013



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 31 investments reduces the exposure to particular markets and individual companies. To date British Smaller Companies VCT2 plc has in total realised 28 investments generating total proceeds of £20.0 million. The current investment portfolio has an audited valuation of £16.3 million at 31 December 2013.

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 LLP and is authorised and regulated by the Financial Conduct Authority.

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 Manufacturing and Industrial Services, Retail and Brands, Software, IT and Telecommunications, Healthcare and Business Services, in VCT qualifying and non-qualifying unquoted and

AIM traded securities. The legislation governing VCTs requires that at 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 normally be in equities, 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 Strategic Report on page 9.

Dividend Policy

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

The tax reliefs that are available for an investment in a VCT are 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 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 current rate of discount to Net Asset Value at which ordinary shares are bought back has been set at 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. Dividends are re-invested at a 5 per cent discount to the latest reported Net Asset Value, as adjusted for the relevant dividend in question if this has not already been recognised. 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. Please see www.yfmep.com for further details of the scheme.

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Financial Highlights

7.0%

Net Asset Value Increase to 65.6 pence per ordinary share

During the year the Net Asset Value has increased by 7.0 per cent per ordinary share prior to the payment of dividends totalling 4.5 pence per ordinary share.

20.6%

Investment Returns

The Company's investment portfolio has generated an underlying increase in value of 20.6 per cent over the year. This included £1.8 million of unrealised value growth and £0.6 million of profit on disposals.

4.5p

Dividends for the Year

Dividends paid and proposed in respect of the year to 31 December 2013 have been maintained at 4.5 pence per ordinary share. These comprise an interim dividend of 2.0 pence paid on 27 September 2013 as well as the 2.5 pence final dividend proposed by the Board. This represents a yield of 7.0 per cent on the Net Asset Value at 31 December 2013.

39.0p

Cumulative Dividends Paid

Cumulative dividends paid since the Company's inception have increased in the year to 39.0 pence per ordinary share from 34.5 pence per ordinary share.

104.6p

Original Investor Return

Shareholders who subscribed in the Company's first fundraising round for the 2000/01 and 2001/02 Tax Years have received dividends totalling 39.0 pence per ordinary share to date, with the Total Return of 104.6 pence per ordinary share representing an 31.0 per cent uplift on their original investment net of tax relief. The annualised return for Shareholders in each fundraising round is set out on page 5.

Financial Calendar

Results Announced	28 March 2014
Ex-Dividend Date	7 May 2014
Record Date	9 May 2014
Annual General Meeting	19 May 2014
DRIS Election Date	23 May 2014
Final Dividend Paid	9 June 2014

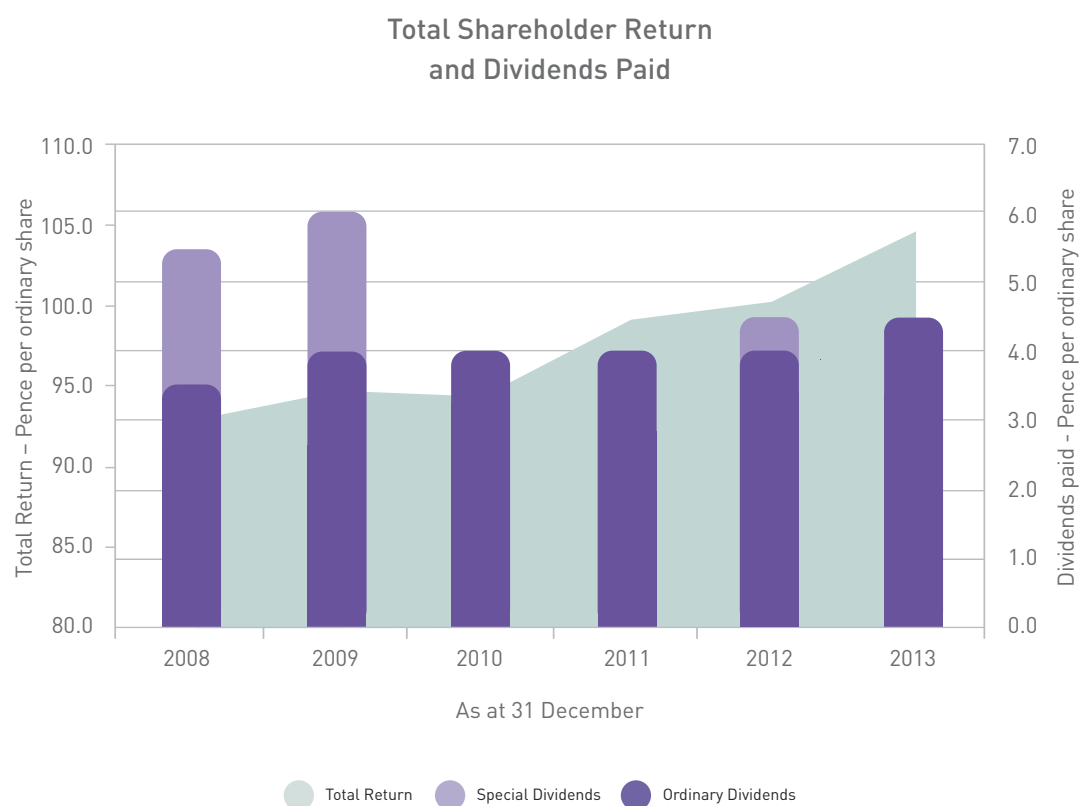
Financial Summary

Five Year Summary

Income	£689,000	£594,000	£349,000	£321,000	£372,000
Profit (loss) before and after tax	£2,131,000	£852,000	£1,040,000	(£103,000)	£310,000
Earnings (loss) per ordinary share	4.73p	2.39p	4.75p	(0.59)p	1.86p
Cumulative dividend paid	39.0p	34.5p	30.0p	26.0p	22.0p
Net assets	£30,458,000	£27,152,000	£15,982,000	£11,829,000	£12,106,000
Total Return per ordinary share	104.6p	100.0p	98.5p	94.4p	94.7p

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.



Summary of Dividends by Revenue and Capital

**39.0
pence**

Dividends paid since inception to 31 December 2013



■ Capital 31.3 pence
■ Revenue 7.7 pence

Total Return by Fundraising Round

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

Tax Year	Offer price	Offer price net of initial tax relief	Net Asset Value as at 31 December 2013	Cumulative dividends paid since fundraising ¹	Total Return since fundraising/ date of acquisition	Total Return including tax relief since fundraising without participation in the DRIS ²	Total Return including tax relief since fundraising with participation in the DRIS ³
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	100.00	80.00	65.60	39.00	104.60	124.60	149.34
2001/02 and 2002/03	100.00	80.00	65.60	39.00	104.60	124.60	149.34
December 2005 issue of shares on acquisition of British Smaller Technology Companies ⁴	100.00	80.00	45.04	25.85	70.89	90.89	137.80
2009/10 and 2010/11	77.25	54.08	65.60	17.00	82.60	105.78	114.48
2010/11 and 2011/12	70.25	49.18	65.60	13.00	78.60	99.68	105.93
2011/12 and 2012/13	70.50	49.35	65.60	9.00	74.60	95.75	99.71
2012/13 and 2013/14	68.00	47.60	65.60	4.50	70.10	90.50	92.33

¹ This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.

² NAV plus cash dividends paid plus tax relief on initial subscription.

³ NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of current DRIS.

⁴ Assuming initial offer price and initial tax relief from original subscription in British Smaller Technology Companies VCT plc.

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total Return is equivalent to £4,480 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 Technologies Company VCT plc shareholder. Total Return is equivalent to £4,134 if the shareholder had opted to participate in the Company's dividend re-investment scheme since the Company's inception.

Tax Year	Offer price	Offer price net of initial tax relief	Net Asset Value as at 31 December 2013	Cumulative dividends paid since fundraising ¹	Total Return since fundraising ²	Total Return since fundraising with participation in the DRIS ³
	£	£	£	£	£	£
2000/01 and 2001/02	3,000	2,400	1,968	1,170	3,138	4,480
Original investment in BSTC 2000/01	3,000	2,400	1,353	775	2,128	4,134

¹ This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.

² NAV plus cash dividends paid.

³ The Total Return since fundraising 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. Assuming initial offer price and initial tax relief from original subscription in British Smaller Technology Companies VCT plc.



I am pleased to report an increase in Net Asset Value per ordinary share of 4.6 pence in the year to December 2013 prior to the payment of dividends totalling 4.5 pence per ordinary share. This is another solid performance as we have continued to build and diversify the investment portfolio and represents a 7.0 per cent increase on the opening Net Asset Value for the year. The Total Return as at 31 December 2013 increased by 4.6 per cent to 104.6 pence per ordinary share.

Chairman's Statement

Financial Results

The Net Asset Value increase is summarised as follows:

Net Asset Value

	Pence per ordinary share	£000
31 December 2012	65.5	27,152
Net underlying increase in portfolio	5.1	2,345
Net expenses	(0.5)	(221)
Buy-back of shares	–	(309)
Issue of new shares	–	3,576
	4.6	5,389
Ordinary dividends paid	(4.5)	(2,083)
	0.1	3,306
31 December 2013	65.6	30,458

Considerable progress has been made by many of the portfolio businesses during the year with an overall value gain from the investment and fixed income securities portfolio of £2.35 million, an increase of 20.6 per cent on the opening 1 January 2013 portfolio value. This return is made up of a gain on realisation of investments in the year of £0.60 million and a profit on revaluation of the ongoing portfolio of £1.75 million.

During the year to 31 December 2013 the Company has paid total dividends of 4.5 pence per ordinary share, bringing the total cumulative dividends paid since inception to 39.0 pence per ordinary share. The Total Return (being Net Asset Value plus cumulative dividends) has increased by 4.6 per cent from 100.0 pence to 104.6 pence per ordinary share.

The chart on page 4 of these Financial Statements shows in greater detail the movement in Total Return, Net Asset Value and dividends paid over time.

Shareholder Relations

Dividends

Your Board remains committed to achieving the objective of a consistent and, where possible, increasing dividend stream over time.

Dividends paid during the year comprise a final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2012 and an interim dividend of 2.0 pence per ordinary share in respect of the financial year just ended, totalling 4.5 pence per ordinary share. This represents 7.0 per cent of the opening Net Asset Value per ordinary share and brings the cumulative dividends paid to 39.0 pence per ordinary share.

The Board is pleased to propose a final dividend of 2.5 pence per ordinary share. This final dividend is subject to approval by Shareholders at the Annual General Meeting and if approved will then be paid on 9 June 2014 to Shareholders on the register at 9 May 2014.

Dividend Re-investment Scheme (DRIS)

The Company operates a DRIS, which gives Shareholders the opportunity to re-invest any cash dividends as described on page 2. The DRIS is open to all Shareholders, including those who have invested under the recent joint offer.

Fundraising

During the year the Company raised £3.58 million net of costs, £3.29 million from the issue of new shares following a linked offer with British Smaller Companies VCT plc which closed in April 2013 and £0.29 million via the DRIS.

As a result of a strong investment rate, coupled with the increasing pipeline of prospective investments, the Company recently launched another joint fundraising offer with British Smaller Companies VCT plc to raise £30 million, in aggregate.

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 19th Shareholder workshop was held at Central Hall Westminster on 12 February 2014 and achieved the highest ever attendance with approaching 200 Shareholders attending. Presentations at the workshop were made by David Hall on behalf of YFM Private Equity Limited, Mark Henley (Managing Director of President Engineering Limited) and Angela Lane (former chairman of Fishawack Communications). After lunch David Hall, David Bell and Paul Cannings, all of YFM Private Equity Limited, hosted a Question and Answer Session which was attended by over 70 Shareholders.

19 May
2014

The Annual General Meeting of the Company will be held at 12.00 noon on 19 May 2014 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 pages 70 to 72.

Regulatory

The Board has submitted an application to the Financial Conduct Authority for approval to become a Self-managed Alternative Investment Fund as defined under the new Alternative Investment Fund Manager's Directive following the implementation of the EU's directive on self-managed investment funds.

The Company has complied with the new reporting regulations throughout this Annual Report. The Board hopes these changes will help Shareholders gain a greater understanding of the Company's performance and strategy.

Subsequent Events

Following the period end a significant investment of £1.64 million has been made to fund the management buyout of Mangar International Limited, a world leader in inflatable lifting and handling bathing equipment for the elderly, disabled and emergency services market. Further to this in March 2013 the Company invested a further £0.07 million into existing quoted portfolio company EKF Diagnostics plc to support further acquisitions to be undertaken by the company.

Subsequent to the year end the Company has made a number of disposals from the quoted portfolio. In January 2014 the Company disposed of its full investment holding in Optos plc generating proceeds of £150,000, as well as the realisation of 35,000 shares in Iomart Group plc which generated an additional £97,000 of proceeds. Whilst in February the Company disposed of 17,000 shares in Pressure Technologies plc generating proceeds of £99,500 and a profit on the 31 December 2013 carrying value of £18,500.

In the three months since the year end the Company has also received £320,000 of monthly capital loan repayments from investee companies. The most significant of these was £228,000 received in January 2014 from Displayplan Holdings Limited as part of an early loan repayment agreed with the company.

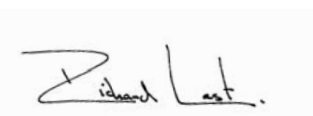
Outlook

The UK economy has begun to see some growth again this year but uncertainties remain regarding the medium term sustainability and most economists assume an extended period of low growth. Our portfolio companies are on the whole well-funded and have focused strategies to maximise the new market opportunities now open to them. The Company remains well placed to continue to support the portfolio businesses in the year ahead.

The Company's new investment activity is focused on small UK businesses with clearly differentiated business models, whether through an established brand, a niche position in a growing market, or an innovative application of services and products. The significant investments made during 2013 have further increased the diversification of the portfolio, with the largest investment representing just 7 per cent of Net Asset Value.

The improved economic conditions together with VCT rule changes which allow up to £5 million of investment in any one investee company have already led to an increase in investment rates which is expected to continue throughout 2014. The Board remains of the opinion that this investment strategy can provide good returns throughout the economic cycles and 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 2014

Objectives and Investment Policy

The Company's objective is to provide investors with an attractive long-term tax free dividend yield while maintaining the capital value of their investment and the Company's status as a venture capital trust.

The investment strategy and objective 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 Manufacturing and Industrial Services, Retail and Brands, Software, IT and Telecommunications, Healthcare and Business Services, in VCT qualifying and non-qualifying unquoted and AIM traded securities. The legislation governing VCTs requires that at 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.

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, Government stocks, corporate bonds and other fixed income securities. Unquoted investments are structured so as to spread risk and enhance revenue yields, usually as a combination of ordinary shares, preference shares and loan stocks, while AIM securities are held in ordinary shares. Pending investment in VCT qualifying and non-VCT qualifying unquoted or AIM traded securities, surplus cash is primarily held as UK Gilts or in interest bearing instant access, notice and fixed term bank accounts.

Reporting to the Fund Manager, the UK gilt portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

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

Investment opportunities are offered to the Company alongside British Smaller Companies VCT plc. The agreed basis for allocation is 40 per cent to the Company and 60 per cent to British Smaller Companies VCT plc. The Board has discretion as to whether to take up its allocation in such opportunities, or to take up a larger participation.

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 & Customs clearance is obtained for approval as a qualifying VCT investment.

The Board reserves the right of the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the Chairman of the Board of directors, if appropriate, may act in consultation with the Fund Manager. The Board has also delegated authority to the Fund Manager to trade in shares of existing AIM quoted portfolio businesses at amounts up to £100,000.

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 Management Team regularly attend the companies' board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can monitor that the venture capital trust 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 venture capital trusts and in making, managing and exiting investments of the kind falling within the Company's investment policies.

Investment Management

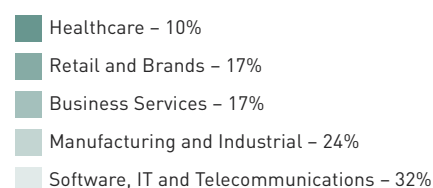
YFM Private Equity Limited has acted as the Company's investment manager since inception. YFM Private Equity Limited has an experienced team of investment managers based in its offices in London, Leeds, Manchester and Sheffield.

The Board reviews the terms of YFM Private Equity Limited's appointment as investment manager on a regular basis. The principal terms of the Company's management agreement with YFM Private Equity Limited are set out in Note 3 to the financial statements.

Fund Manager's Review

The improving economic outlook, hesitant approach from the banks and changes in EU restrictions on qualifying VCT investments are all leading to an increase in the volume and scale of investment opportunities. To fulfil the pipeline of potential investments currently being reviewed and those expected to be made over the coming months, the Company is seeking to increase its investment capacity by way of a joint fundraising with British Smaller Companies VCT plc aimed at raising a combined total of £30 million of new investment funds.

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 investment and fixed income securities portfolio was £2.35 million, an increase of 20.6 per cent on the opening 31 December 2012 portfolio value, which comprises profits on disposals during the year of £0.54 million, deferred consideration gains of £0.06 million and an increase in the residual portfolio value of £1.75 million.



Our Portfolio

£16.3
million

Fair value of portfolio

2012: £11.4m

31

Number of portfolio companies

2012: 30

£5.5
million

Investment in portfolio

2012: £4.44m

£3.07
million

Realisations from portfolio

2012: £4.41m

4

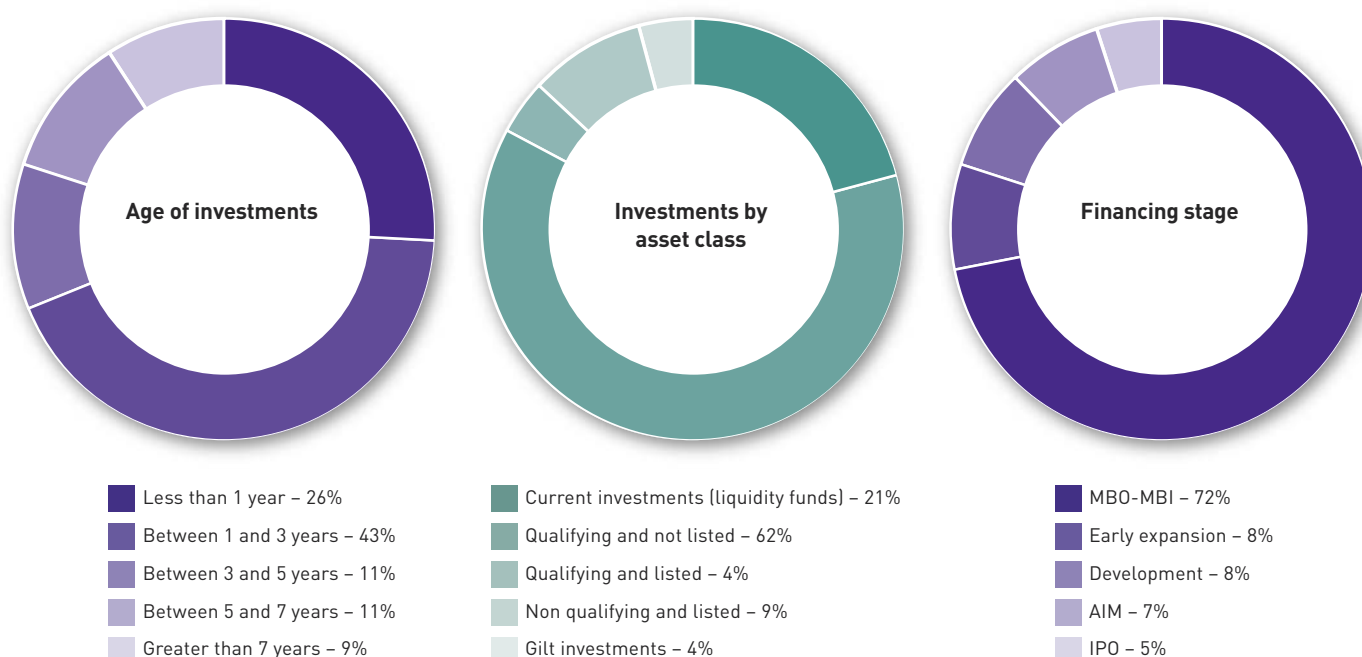
Number of new portfolio companies

2012: 5

Summary

- Investment activity levels have increased with eight investments during the year totalling £5.50 million (plus capitalised interest of £0.10 million).
- The Company has made one full disposal during the year from the unquoted portfolio, three full disposals from the quoted portfolio, and one part disposal from the quoted portfolio generating £2.93 million of cash proceeds, with a further £0.14 million of deferred consideration recognised.
- Cash at bank, cash on deposit and gilt investments (including cash held on deposit) at 31 December 2013 were £14.07 million representing 46.19 per cent of net assets, which compares to £15.44 million (56.88 per cent of net assets) at 31 December 2012.

Our Portfolio at a Glance



Significant Investment Movements

The £1.36 million value gain from the unquoted portfolio is a result of good progress by a number of businesses which have seen profits grow despite the continuing economic uncertainty. The key movements were:

- Retail display business, **DisplayPlan Holdings Limited**, saw a value increase of £0.64 million following strong trading results since the buyout in January 2012.
- Specialist provider of communication solutions in remote locations, **Seven Technologies Holdings Limited**, saw a value increase of £0.47 million following a solid first year of trading and the strategic acquisition of Datong plc in June 2013.
- Contract catering provider, **Waterfall Services Limited**, saw an increase of £0.27 million following strong trading results and several new contract wins.
- Supplier of value-added SME telecom services, **Callstream Group Limited** (formerly Bluebell Telecoms Group Limited), saw a value increase of £0.25 million after delivering cost synergies following previous acquisitions and disposing of non-core contracts in August 2013.
- **PowerOasis Limited**, provider of software to monitor and control remote hybrid power solutions, saw a fall in value of £0.14 million following a disappointing year where several promising trials have yet to convert into significant commercial contracts.

The £0.41 million increase from the AIM quoted portfolio resulted from the following key movements:

- Manufacturer of high pressure containers for the oil and gas industry, **Pressure Technologies plc**, accounted for a value increase of £0.35 million following improved trading results and a successful diversification strategy.
- Supplier of advanced automotive testing equipment, **AB Dynamics plc**, had a strong year following its initial public offering in May 2013 with a value gain of £0.14 million.
- Provider of managed IT hosting services, **lomart Group plc**, saw a value gain of £0.10 million as it continued to roll out services and consolidate acquisitions.
- **Cambridge Cognitions Holdings plc**, which produces psychometric tests to diagnose mental health conditions, began the year as an unquoted investment but saw a value fall of £0.10 million following its initial public offer in April 2013 as the market awaits news of commercial progress.

Investment Portfolio

The Company saw an effective net value gain of £2.37 million (20.8 per cent) on the opening investment portfolio valuation at 31 December 2012, excluding movements

due to investments and realisations, as shown in Table A below. This increase includes deferred proceeds but excludes a £0.02 million value decrease on the gilt portfolio. This can be broken down into an unrealised value gain of £1.77 million

Investment Portfolio

Table A

	£000 2013	%
Unquoted value gain	1,356	57.3
Quoted value gain	414	17.5
Profit on disposal	537	22.7
	2,307	97.5
Deferred proceeds	59	2.5
Total Value Movement	2,366	100.0

Investment Activity

Table B

New Investments	£million
Gill Marine Holdings Limited	1.87
GTK (UK) Limited	1.15
Leengate Holdings Limited	0.93
AB Dynamics plc	0.15
Follow-on Investments	
Seven Technologies Holdings Limited	0.74
Bagel Nash Group Limited	0.39
Hargreaves Services plc	0.20
PowerOasis Limited	0.07
Total Investments	5.50
Capitalised Interest	
Bagel Nash Group Limited	0.01
Total Invested	5.51

Disposal of Investments

Table C

	Net proceeds from sales of investments £000	Cost of investment £000	Opening value 1 January 2013 £000	Gain on opening value £000
Sale of portfolio investments	2,926	5,532	2,389	537
Deferred proceeds received	125	–	88	37
Deferred proceeds accrued	22	–	–	22
Total Proceeds	3,073	5,532	2,477	596

Valuation Policy

Table D

	Number of investments	Valuation £000	% of portfolio by value
Earnings multiple	11	8,371	52
Cost of recent investment	3	3,945	24
Cost of third party investment	3	1,472	9
Original cost less provision	4	–	–
Quoted investments at bid price	10	2,467	15
Total	31	16,255	100

(£1.36 million from the unquoted portfolio and £0.41 million from the AIM quoted portfolio) and £0.60 million of realised gains of which £0.54 million related to new disposals and £0.06 million related to deferred proceeds from disposals in previous periods. This is broken down in Table A.

New Investments

2013 has been an active year for investments with the Company completing eight investments totalling £5.51 million (£4.44 million in 2012). This comprised four new investments and four follow-on investments into existing portfolio companies and is broken down in Table B.

The new investments during the year totalled £4.10 million.

- In May 2013 the Company invested £0.15 million as part of a £5.0 million AIM placing to support the expansion of AB Dynamics plc, a designer, manufacturer and supplier of advanced testing products to the global automotive industry.
- In September 2013 the Company invested £1.87 million as part of the management buyout of Gill Marine Holdings Limited, the market leading manufacturer of branded sailing clothing and accessories.
- In October 2013 the Company invested £1.15 million to support the management buyout of GTK (UK) Limited, a global manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers.
- In December 2013 the Company invested £0.93 million into Leengate Holdings Limited, a wholesaler, stockist and distributor of industrial valves to fund the management buyout from the Linde Group.

Following the period end a significant investment of £1.64 million has been made to fund the management buyout of Mangar International Limited, a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets.

The four investments into the existing portfolio during the year totalled £1.40 million.

- In June 2013 a significant follow-on investment of £0.74 million was provided to Seven Technologies Holdings Limited, a manufacturer of specialist electronic and communication equipment, as part of the funding package for its £7.0 million acquisition of Datong plc, a manufacturer and international supplier of specialist communications products.
- In July 2013 a further £0.39 million was invested into Bagel Nash Group Limited to support the expansion of its bakery and retail roll out strategy.
- In August 2013 a further £0.20 million of shares were acquired in AIM quoted Hargreaves Services plc, a UK producer and distributor of solid fuels with a long term growth strategy.
- In March 2013 £0.07 million was invested into PowerOasis Limited, a provider of power management solutions for wireless networks, as part of a \$5 million funding round led by a strategic investor.

Disposal of Investments

During the year to 31 December 2013 the Company received proceeds from disposals, repayments of loans and deferred consideration of £3.07 million which resulted in a value gain on disposal of investments of £0.60 million. This is broken down in Table C on page 12.

The most significant proceeds related to:

- In January 2013 £0.27 million was received on the purchase of AIM quoted Tikit Group plc by a trade buyer. The value increase was minimal as the gain had already been taken in the 31 December 2012 valuation but this represented an uplift on cost of £0.09 million.
- In June 2013 £0.70 million of non-qualifying loans to Seven Technologies Holdings Limited were repaid as part of the refinancing package ahead of its purchase of Datong plc.
- In August 2013 the Company realised its investment in healthcare software provider Digital Healthcare Limited via a trade sale to Emis Group plc for proceeds of £1.29 million and an increase over the 31 December 2012 valuation of £0.37 million. This crystallised a loss on cost of £1.79 million due to the failed original strategy to rollout services to the US market which had to be abandoned due to market downturn and changes to reimbursement codes.

- During the year the Company sold 45 per cent of its holding in Pressure Technologies plc for £0.29 million realising a gain on cost of £0.15 million.
- In November 2013 the £0.17 million investor loan to Waterfall Services Limited was repaid following a period of strong trading.

The £125,000 of deferred proceeds relates to further cash payments from the sale of DxS Limited in 2009 and from the sale of Primal Pictures Limited in August 2012, which resulted in a value gain of £37,000. The expected future payments which have been included in the net assets total £132,000, comprising £120,000 relating to Sirigen Group Limited and £12,000 relating to Primal Pictures Limited, an uplift of £22,000 versus the previous carrying values.

A detailed analysis of all investments sold in the year can be found in note 7 to the financial statements on page 59.

Portfolio Composition

There are currently 31 companies in the portfolio with a value at 31 December 2013 of £16.26 million of which 21 unquoted businesses make up 84.8 per cent of the value and 10 AIM quoted businesses make up 15.2 per cent of the value. An analysis of the movements in the year is shown in note 7 to the financial statements on page 57.

The objective of increasing diversification within the portfolio continues to be successful, with the biggest single investment representing 7.0 per cent of the Net Asset Value. Two years ago the largest investment represented nearly 14 per cent and there were three investments over 10 per cent.

The pie charts on pages 10 and 11 of these financial statements show the composition of the portfolio as at 31 December 2013 by industry sector, age of investments, investment by asset class and the stage of financing at the point of investment. This demonstrates representation across a wide range of industry sectors which adds to the resilience to withstand economic change.

The Company has continued to hold a proportion of its surplus cash in fixed income Government Gilts and A-rated deposit accounts.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out on page 27, which takes account of current industry guidelines for the valuation of venture capital portfolios. Provision against cost is made where an investment is significantly under-performing. As at 31 December 2013 the number of investments falling into each valuation category is shown in Table D on page 12.

Outlook

The year has seen a continuation of recent uncertain market conditions and although there appears to be some early signs of economic recovery this situation remains fragile. In spite of this many of the portfolio companies have delivered improved results, focusing on proven brands, niche growth sectors or rolling out new technology. We hope to see economic conditions gradually improve but continue to plan for low growth and back business models which will still succeed. The increasing diversification of the portfolio should also help to reduce the volatility of returns.

We have seen a marked increase in new investment enquiries and believe the Company is well-placed to take advantage and select the best of these. The improving economic outlook, hesitant approach from the banks and changes in EU restrictions on qualifying VCT investments are all leading to an increase in the volume and scale of investment opportunities.

With this in mind the Company launched a joint fundraising with British Smaller Companies VCT plc in January 2014 with the aim of raising £30.0 million across the two Companies. This will enable the Company to take advantage of these new investment opportunities and to continue to support our successful portfolio businesses.

We believe there are also several good exit prospects over the next few years, which should allow the Board to achieve its aim of a constant dividend stream whilst preserving and if possible enhancing the underlying Net Asset Value.

David Hall
YFM Private Equity Limited
 28 March 2014

Fund Manager's Review

Portfolio valuation at 31 December 2013 and full history of disposals up to 31 December 2013

Page No.	Name of Company	Date of Initial Investment	Location	Industry Sector	Cost £000	Proceeds to Date* £000	Investment Valuation at 31 December 2013 £000	Valuation plus proceeds to Date £000
	Current Investments							
	Unquoted Portfolio							
17	Seven Technologies Holdings Limited	Apr-12	Northern Ireland	Manufacturing	1,238	762	1,711	2,473
18	DisplayPlan Holdings Limited	Jan-12	Hertfordshire	Retail	700	–	2,142	2,142
18	Gill Marine Holdings Limited	Sep-13	Nottingham	Retail	1,870	–	1,870	1,870
18	GTK (UK) Limited	Oct-13	Basingstoke	Manufacturing	1,141	9	1,141	1,150
19	Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	1,932	–	987	987
19	Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing	934	–	934	934
19	Deep-Secure Limited	Dec-09	Malvern	Software	500	–	915	915
20	Waterfall Services Limited	Feb-07	Warrington	Healthcare	25	458	489	947
20	Bagel Nash Group Limited	Jul-11	Leeds	Retail Baker	804	13	733	746
20	Callstream Group Limited**	Sep-10	Newcastle	Telecommunications	438	96	674	770
21	Insider Technologies (Holdings) Limited	Aug-12	Manchester	Software	780	–	689	689
21	RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	70	349	307	656
21	Harvey Jones Holdings Limited	May-07	London	Consumer Retail	389	–	441	441
22	PowerOasis Limited	Nov-11	Swindon	Energy Infrastructure	566	–	425	425
22	Selima Limited	Mar-12	Sheffield	Software	300	–	270	270
22	Tissuemed Limited	Dec-05	Leeds	Consumer Retail	48	–	60	60
23	Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	–	–	–
23	TeraView Limited	Dec-11	Cambridge	Medical Instruments	375	–	–	–
	Silistix Limited	Dec-03	Manchester	Software	1,364	–	–	–
	Intelligent Recording Limited	Sep-08	Chester	Electronics	–	–	–	–
	Solcom Limited	Dec-05	Ryde	Software	–	–	–	–
					13,791	1,687	13,788	15,475
	Quoted Portfolio							
23	Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	167	293	528	821
24	Iomart Group plc	May-11	London	IT Infrastructure	149	112	444	556
24	Hargreaves Services plc	Aug-12	Durham	Industrial	325	–	335	335
24	Brady plc	Dec-10	Cambridge	Metals and Commodities	134	163	164	327
25	AB Dynamics plc	May-13	Wiltshire	Manufacturing	149	–	290	290
25	EKF Diagnostics Holdings plc	Jul-11	London	Medical Instruments	224	–	248	248
25	Vianet Group plc	Oct-06	Stockton-on-Tees	Electronics	243	–	165	165
26	Optos plc	Dec-05	Dunfermline	Medical Instruments	81	167	161	328
26	Cambridge Cognition Holdings plc	May-02	Cambridge	Software	240	–	96	96
26	Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	36	36
					2,062	735	2,467	3,202
					15,853	2,422	16,255	18,677
	Full disposals to date				13,500	20,099	–	20,099
	Total				29,353	22,521	16,255	38,776

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

** Formerly Bluebell Telecoms Group Limited.

Portfolio valuation at 31 December 2013 and full history of disposals up to 31 December 2013 (continued)

Name of Company	Date of Initial Investment	Date of Disposal	Industry Sector	Cost £000	Proceeds to Date £000	Capital Return Multiple x	Gains (losses) on Disposal £000
Disposed Investments							
Cozart plc	Jul-04	Oct-07	Healthcare	1,566	2,978	1.90	1,412
Sarian Systems Limited	Dec-05	Apr-08	Telecoms	928	2,605	2.80	1,677
DxS Limited	Apr-04	Sep-09	Healthcare	163	2,514	15.42	2,351
Vibration Technology Limited	Mar-02	Sep-06	Industrial	1,061	2,328	2.20	1,267
Primal Pictures Limited	Dec-05	Sep-12	Medical Instruments	961	2,256	2.35	1,295
Amino Technologies plc	Sep-01	Nov-04	Electronics	415	1,872	4.52	1,457
Sirigen Group Limited	Jun-10	Sep-12	Medical Technology	517	1,566	3.10	1,049
Digital Healthcare Limited	Jun-05	Aug-13	Medical Instruments	3,072	1,285	0.42	(1,787)
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
Tikit Group plc	May-11	Jan-13	Software	198	283	1.43	85
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	103	296	2.87	193
Patsystems plc	Sep-07	Jan-12	Software	317	164	0.52	(153)
May Gurney Integrated Services plc	May-11	Mar-13	Construction	211	141	0.67	(70)
Voxar Limited	Dec-05	Nov-06	Software	–	91	–	91
Arakis Limited	Mar-04	Aug-05	Healthcare	14	108	7.71	94
SoseiCo Limited	Aug-05	Feb-06	Healthcare	158	94	0.59	(64)
Broadreach Networks Limited	Feb-03	Dec-05	Telecoms	550	17	0.03	(533)
Sirus Pharmaceuticals Limited	Sep-01	Mar-04	Healthcare	270	18	0.06	(252)
Zergo Group plc	May-11	Jun-13	Software	197	3	0.02	(194)
Oxis Energy Limited	Dec-05	Dec-12	Electronics	5	4	0.80	(1)
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-12	Software	611	–	–	(611)
Total				13,500	20,099	–	6,599

Reconciliation of investment portfolio movement since 31 December 2012

Name of Company	Investment Valuation at 31 December 2012 £000	Disposal proceeds £000	Additions £000	Valuation gains including profits/ (losses) on disposal £000	Investment valuation at 31 December 2013 £000
DisplayPlan Holdings Limited	1,501	–	–	641	2,142
Gill Marine Holdings Limited	–	–	1,870	–	1,870
Seven Technologies Holdings Limited	1,198	(700)	738	475	1,711
GTK (UK) Limited	–	(9)	1,150	–	1,141
Immunobiology Limited	987	–	–	–	987
Leengate Holdings Limited	–	–	934	–	934
Deep-Secure Limited	937	–	–	(22)	915
Bagel Nash Group Limited	400	(13)	402	(56)	733
Insider Technologies (Holdings) Limited	780	–	–	(91)	689
Callstream Group Limited*	520	(96)	–	250	674
Pressure Technologies plc	315	(293)	–	506	528
Waterfall Services Limited	386	(167)	–	270	489
Iomart Group plc	345	–	–	99	444
Harvey Jones Holdings Limited	414	–	–	27	441
PowerOasis Limited	500	–	66	(141)	425
Tikit Group plc	262	(266)	–	4	–
Digital Healthcare Limited	913	(1,285)	–	372	–
Other Investments	1,905	(97)	351	(27)	2,132
Total Movement	11,363	(2,926)	5,511	2,307	16,255

* Formerly Bluebell Telecoms Group Limited

Fund Manager's Review

Manufacturing and Industrial Services



Fair value

£3.9m

2012: £0.9m

Number of companies

6.5

2012: 3.5

Retail and Brands



Fair value

£2.7m

2012: £0.7m

Number of companies

2.5

2012: 2.5

Software, IT and Telecommunications



Fair value

£5.3m

2012: £5.1m

Number of companies

9

2012: 11

Healthcare



Fair value

£1.6m

2012: £2.6m

Number of companies

7

2012: 8

Business Services



Fair value

£2.8m

2012: £2.1m

Number of companies

3

2012: 3

Investment Portfolio

This section describes the business of the active companies in the portfolio, in order of valuation plus proceeds as at 31 December 2013 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

Seven Technologies Holdings Limited

Belfast

www.seventechnologies.co.uk

Cost:	£1,238,000
Valuation:	£1,711,000
Date of investment:	April 2012
Equity held:	6.30%
Valuation basis:	Earnings multiple
Interest:	£21,091 (2012: £44,800)
Dividends:	£17,847 (2012: nil)

Year ended	2013
31 May	£million
Sales	11.58
EBITA	2.58
Loss before tax	(0.17)
Retained losses	(0.57)
Net assets	17.75

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 significantly growing average contract sizes. In June 2013 Seven Technologies acquired Datong plc in order to expand its product offer and significantly extend its international customer base. The deal was funded by a mixture of new equity from existing shareholders and bank debt, with the Company's existing non-qualifying loans being repaid.



DisplayPlan Holdings Limited

Baldock, Herts
www.displayplan.com

Cost:	£700,000
Valuation:	£2,142,000
Date of investment:	January 2012
Equity held:	12.25%
Valuation basis:	Earnings multiple
Interest:	£63,000 (2012: £61,274)
Dividends	£22,332 (2012: nil)

Year ended 31 December	31 Dec 2012 £million	31 Mar 2012 £million
Sales	19.97	3.52
EBITA	3.35	0.31
Profit before tax	2.99	0.25
Retained profits	2.40	0.16
Net assets	2.81	0.57

In January 2012 an investment was made to support the management buy-out of **DisplayPlan Holdings**, a company providing a complete retail display consultancy service from concept through design and sourcing to finished product delivery supplying 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. A number of new customers have already been secured since the buy-out.



Gill Marine Holdings Limited

Nottingham
www.gillmarine.com

Cost:	£1,870,000
Valuation:	£1,870,000
Date of investment:	September 2013
Equity held:	13.80%
Valuation basis:	Price of recent investment reviewed for change in fair value

Following the buy-out of the existing company in September 2013 the first set of accounts are not yet due.

In September 2013 the Company supported the management buyout of **Gill Marine Holdings**, the Nottingham based manufacturer of technical sailing clothing and accessories which it exports to over 35 countries. It is the official technical clothing sponsor for the internationally renowned Aberdeen Asset Management Cowes Week Regatta and exports over 70 per cent of turnover. The strategy is to develop the brand further and increase market share in both existing and newer markets.



GTK (UK) Limited

Basingstoke
www.gtk.co.uk

Cost:	£1,141,000
Valuation:	£1,141,000
Date of investment:	October 2013
Equity held:	16.40%
Valuation basis:	Price of recent investment reviewed for change in fair value
Interest:	£17,980 (2012: n/a)

Following the buy-out of the existing company in October 2013 the first set of accounts are not yet due.

In October 2013 the Company backed the management buy-out of **GTK (UK) Limited**, a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. Headquartered in Basingstoke and with a small sourcing team in Taiwan, GTK has an established management team and a loyal and diverse customer base. It provides design, procurement and manufacturing services of essential but non-core electronic components for customers in the UK and internationally in sectors such as precision instrumentation, defence/security and contract equipment manufacturing.



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:	23.40%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Year ended 31 May	2013 £million	2012 £million
Sales	–	–
LBITA	(1.11)	(1.34)
Loss before tax	(1.10)	(1.33)
Retained losses	(8.96)	(8.13)
Net assets/(liabilities)	2.67	(3.11)

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia.

A licence deal has been signed with Chinese pharmaceutical group Lanzhou Institute of Biological Products Co Limited to fund the clinical development of a TB vaccine in China. The pneumonia vaccine is also being co-developed in collaboration with a large Indian pharmaceutical group.



Leengate Holdings Limited

Derbyshire
www.leengatevalves.co.uk

Cost:	£934,000
Valuation:	£934,000
Date of investment:	December 2013
Equity held:	7.00%
Valuation basis:	Price of recent investment reviewed for change in fair value

Following the buy-out of the existing company in October 2013 the first set of accounts are not yet due.

In December 2013 the Company backed the existing management team at **Leengate Holdings**, a wholesaler, stockist and distributor of industrial valves, in their management buy-out from an engineering group. Based in Derbyshire, Leengate supplies one of the largest ranges of industrial valves in the UK to leading re-sellers in the gas, water and industrial sectors. It is also a specialist supplier of engineering actuation and automation packages, offering a next day service and high quality technical advice.



Deep-Secure Limited

Malvern
www.deep-secure.com

Cost:	£500,000
Valuation:	£915,000
Date of investment:	December 2009
Equity held:	8.15%
Valuation basis:	Earnings multiple
Interest:	£54,000 (2012: £54,148)

Year ended 31 December	2012 £million	2011 £million
Sales	2.75	3.72
EBITA	0.40	1.50
(Loss)/profit before tax	(1.16)	0.24
Retained losses	(1.28)	(0.26)
Net (liabilities)/assets	(0.88)	0.14

Deep-Secure's market leading products protect against threats to IT security using 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, many organisations face exposure to leakage and attack. Historic customers include international governments, cross border forces and defence sectors and new customers are being targeted in other sectors where high security is a priority.



Waterfall Services Limited

Warrington
www.caterplus.co.uk

Cost:	£25,000
Valuation:	£489,000
Dates of investment:	February 2007, June 2008 & September 2011
Equity held:	4.88%
Valuation basis:	Earnings multiple
Interest:	£22,807 (2012: £23,821)

Year ended 31 March	2013 £million	2012 £million
Sales	48.74	46.46
EBITA	1.81	1.58
Profit before tax	1.05	0.86
Retained profits	2.18	1.44
Net assets	3.47	2.73

Waterfall is a contract caterer specialising in the care home sector. Since the original investment in 2007 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.



Bagel Nash Group Limited

Leeds
www.bagelnash.com

Cost:	£804,000
Valuation:	£733,000
Dates of investment:	July 2011, July 2013 & October 2013
Equity held:	4.60%
Valuation basis:	Earnings multiple
Interest:	£51,336 (2012: £37,295)

Year ended 30 April	2013 £million	2012 £million
Sales	5.51	3.56
EBITA	0.57	0.33
Loss before tax	(0.28)	(0.26)
Retained losses	(0.57)	(0.28)
Net assets	0.16	0.45

Bagel Nash is an established operator of espresso and bagel bars in the north of England and also runs a bakery supplying products to its own stores and the UK wholesale trade. An experienced team completed the buy-in in July 2011 with value growth expected to come from a retail roll out strategy. The team has completed a relocation of the bakery to increase capacity and rolled out four new outlets.

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



Callstream Group Limited (formerly Bluebell Telecoms Group Limited)

Newcastle upon Tyne
www.callstream.com

Cost:	£438,000
Valuation:	£674,000
Date of investment:	September 2010
Equity held:	6.75%
Valuation basis:	Earnings multiple
Interest:	£31,651 (2012: £35,905)

Year ended 30 April	2013 £million	2012 £million
Sales	13.31	13.59
EBITA	2.78	2.37
Profit before tax	0.78	0.34
Retained profits/(losses)	0.10	(0.23)
Net assets	5.02	4.68

Callstream is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's initial investment, in September 2010, was made to fund the acquisition of a competitor. In August 2011 another telecommunications group, Worldwide ISDN Limited, was acquired which has now been successfully integrated. In August 2013 a number of its smaller non-core contracts were sold to focus on selling niche value-added products into targeted sectors.



Insider Technologies (Holdings) Limited

Manchester
www.insidertech.co.uk

Cost:	£780,000
Valuation:	£689,000
Date of investment:	August 2012
Equity held:	17.20%
Valuation basis:	Earnings multiple
Interest:	£58,680 (2012: £22,025)

Audited financial information for period from
14 June 2012 to 31 March 2013:

	2013
	£million
Retained profits	1.51
Net assets	2.51

Insider Technologies is an established provider of monitoring and scheduling software to the financial services and national security sectors. The Company backed the buy-out 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.

Insider Technologies (Holdings) 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:	£307,000
Dates of investment:	July 2007, June 2008 & August 2010
Equity held:	3.15%
Valuation basis:	Earnings multiple
Interest:	£nil (2012: £3,396)

Year ended 31 December	2012	2011
	£million	£million
Sales	28.60	27.66
EBITDA	4.11	2.79
Profit before tax	2.51	0.99
Retained profits	2.32	0.76
Net assets	6.99	5.43

RMS operates from six sites on the Humber estuary handling around two million tonnes of cargo a year. Since the Company's investment in 2007, RMS has continued to broaden its range of customer service and expand its operations along the Humber estuary. The management team has used the tough economic conditions to consolidate their market position and all the Company's original loan instruments have been repaid in full.



Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£389,000
Valuation:	£441,000
Date of investment:	May 2007
Equity held:	3.44%
Valuation basis:	Earnings multiple
Interest:	£41,965 (2012: £39,685)

Year ended 31 December	2012	2011
	£million	£million
Sales	14.48	12.24
EBITA	0.87	0.99
Profit before tax	0.13	0.28
Retained profits	0.20	0.20
Net assets	0.73	0.74

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 30 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.



PowerOasis Limited

Swindon
www.power-oasis.com

Cost:	£566,000
Valuation:	£425,000
Date of investment:	November 2011
Equity held:	3.20%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 31 January	2013 £million	2012 £million
Sales	1.09	2.73
LBITA	(2.88)	(2.12)
Loss before tax	(2.88)	(2.12)
Retained losses	(7.19)	(4.65)
Net assets	0.77	3.20

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 \$5million funding round was completed in February 2013 which included a significant investment from a trade partner.



Selima Limited

Sheffield
www.selima.co.uk

Cost:	£300,000
Valuation:	£270,000
Date of investment:	March 2012
Equity held:	5.90%
Valuation basis:	Earnings multiple
Interest:	£21,600 (2012: £17,575)

Year ended 31 December	2012 £million	2011 £million
Retained profits	0.96	0.77
Net assets	0.96	0.77

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.



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	2013 £million	2012 £million
Sales	0.59	0.63
Loss before tax	(0.19)	(0.66)
Retained losses	(17.33)	(17.20)
Net assets	2.23	2.36

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:	£nil
Dates of investment:	December 2007, October 2008 & June 2010
Equity held:	6.17%
Valuation basis:	Earnings multiple

Year ended 31 October	2012 £million	2011 £million
Sales	3.72	3.72
EBITA	0.20	0.29
Loss before tax	(3.62)	(0.76)
Retained losses	(5.00)	(1.38)
Net liabilities	(4.40)	(0.79)

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:	Cost, reviewed for change in fair value

Year ended 30 April	2012 £million	2011 £million
Sales	1.85	2.95
Loss before tax	(2.48)	(5.75)
Retained losses	(34.34)	(32.00)
Net assets/(liabilities)	0.48	(17.92)

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.



Quoted Portfolio

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost:	£167,000
Valuation:	£528,000
Dates of investment:	June 2007 & May 2008
Equity held:	0.10%
Valuation basis:	Quoted bid price
Dividends received:	£15,208 (2012: £14,607)

Year ended 30 September	2013 £million	2012 £million
Sales	30.38	30.44
EBITA	3.13	2.24
Profit before tax	2.88	1.78
Retained profits	11.48	10.10
Net assets	17.46	16.06

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. They recently completed the acquisition of Roota Engineering, a manufacturer of complementary engineered products, funded with a placement of shares, with the balance sheet remaining un-gearred.



Subsequent to the year end the Company realised 17,000 shares, generating proceeds of £99,500 compared to the carrying value of £81,000 at 31 December 2013.

Iomart Group plc

London
www.iomart.com

Cost:	£149,000
Valuation:	£444,000
Date of investment:	May 2011
Equity held:	0.20%
Valuation basis:	Quoted bid price
Dividends received:	£2,415 (2012: £2,070)

Year ended	2013	2012
31 March	£million	£million
Sales	43.06	33.48
EBITA	10.97	7.08
Profit before tax	8.70	5.84
Retained profits	29.60	24.81
Net assets	52.22	45.06

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.



Subsequent to the year end the Company realised 35,000 shares, generating proceeds of £97,000 compared to the carrying value of £90,000 at 31 December 2013.

Hargreaves Services plc

Durham
www.hargreavesservices.co.uk

Cost:	£325,000
Valuation:	£335,000
Dates of investment:	October 2012 & October 2013
Equity held:	0.10%
Valuation basis:	Quoted bid price
Dividends:	£8,855 (2012: nil)

Year ended	2013	2012
31 May	£million	£million
Sales	843.30	617.92
EBITA	51.96	53.37
Profit before tax	43.06	44.95
Retained profits	47.27	97.80
Net assets	118.33	136.36

In the years following its formation in 1994 **Hargreaves Services** established itself as the largest independent bulk haulage company in Britain. The Group has a national network of depots and facilities, and specialises in supplying and processing carbon based minerals. It expanded into energy trading in mainland Europe, operating two collieries and a coke plant. The planning consent received in 2011 to begin production at the Tower Colliery in Wales was a significant step and should underpin further profit growth. Following operational issues in 2012 the decision was taken to close all mining activities at Maltby to focus instead on surface mining activities. On 10 May 2013 Hargreaves Services confirmed that it had been named by the liquidators of the Scottish Coal Company Limited as preferred bidder for certain assets.



Brady plc

Cambridge
www.bradyplc.com

Cost:	£134,000
Valuation:	£164,000
Date of investment:	December 2010
Equity held:	0.30%
Valuation basis:	Quoted bid price
Dividends received:	£3,643 (2012: £6,072)

Year ended	2012	2011
31 December	£million	£million
Sales	28.14	19.16
EBITA	2.56	2.96
Profit before tax	0.80	2.10
Retained profits	2.78	3.95
Net assets	41.61	23.95

AIM-listed **Brady** 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.



AB Dynamics plc

Wiltshire
www.abd.co.uk

Cost:	£149,000
Valuation:	£290,000
Date of investment:	May 2013
Equity held:	1.10%
Valuation basis:	Quoted bid price

Year ended	2013	2012
31 August	£million	£million
Sales	12.17	8.91
EBITA	1.89	1.80
Profit before tax	1.87	1.88
Retained profits	5.56	4.44
Net assets	8.22	4.68

The Company invested in the initial public offering in May 2013 of **AB Dynamics**, a designer and manufacturer of advanced testing systems for the automotive industry. The strategy is to continue the historic growth profile through the development of new products and to relocate the manufacturing facility to increase capacity.



EKF Diagnostics Holdings plc

London
www.ekfdiagnostics.com

Cost:	£224,000
Valuation:	£248,000
Dates of investment:	July 2011 & March 2012
Equity held:	0.30%
Valuation basis:	Quoted bid price

Year ended	2013	2012
31 December	£million	£million
Sales	31.80	26.06
Profit/(loss) before tax	0.61	(0.20)
Retained losses	(3.89)	(3.00)
Net assets	40.92	39.43

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.



Subsequent to the year end the Company invested a further £0.07 million to support further acquisitions by EKF.

Vianet Group plc (formerly Brulines Group plc)

Stockton-on-Tees
www.vianetplc.com

Cost:	£243,000
Valuation:	£165,000
Date of investment:	October 2006
Equity held:	0.90%
Valuation basis:	Quoted bid price
Dividends received:	£12,540 (2012: £9,002)

Year ended	2013	2012
31 March	£million	£million
Sales	21.09	22.98
EBITA	2.48	3.35
Profit before tax	1.82	2.34
Retained profits	10.09	9.73
Net assets	23.37	23.22

Vianet is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed 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:	£161,000
Dates of investment:	December 2005 & February 2007
Equity held:	0.10%
Valuation basis:	Quoted bid price

Year ended	2013	2012
30 September	\$million	\$million
Sales	158.20	193.20
EBITA	12.70	32.90
Profit before tax	9.50	23.40
Retained profits/(losses)	2.70	(3.50)
Net assets	125.50	118.60

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.



Subsequent to the year end the Company realised its full investment in Optos, generating proceeds of £150,000.

Cambridge Cognition Holdings plc

Cambridge
www.camcog.com

Cost:	£240,000
Valuation:	£96,000
Date of investment:	May 2002
Equity held:	17.80%
Valuation basis:	Quoted bid price

Year ended	2013	2012
31 December	£million	£million
Sales	4.15	5.68
EBIT/LBIT	2.96	(1.45)
Loss before tax	(2.99)	(1.58)
Retained losses	(10.15)	(7.70)
Net assets/(liabilities)	2.13	(1.68)

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. On 18 April 2013 the company floated on AIM, raising £35.0 million to support the development of point of care diagnostic applications.



Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost:	£350,000
Valuation:	£36,000
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	2013	2012
30 June	£million	£million
Sales	39.28	41.28
EBITA	1.04	1.48
Profit before tax	0.43	0.64
Retained losses	(99.46)	(100.13)
Net assets	14.67	14.59

Allergy Therapeutics specialises in the treatment and prevention of allergies. Whilst good progress has been made in expanding sales, growth was inhibited until The Food and Drug Administration Agency (FDA) lifted an historic restriction of the development programme for its key products at the end of 2012.



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. Where the Company judges that the level of trading does not meet these requirements, one of the methodologies above will be used to value the investment. No methodology other than market bid price has been applied as at 31 December 2013.

Key Performance Indicators

The Company monitors two 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, inclusive of any recoverable tax credits, 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 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 reference to the Share Price Total Return for 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 42.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. Under Chapter 3 of 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 72.79 per cent (2012: 71.61 per cent) of income being derived from such sources. Included within this calculation is £57,000 of interest income which has been fully provided against 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 (2012: 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 85.04 per cent (2012: 92.28 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 46.42 per cent (2012: 68.16 per cent) of value being in holdings of non-preferential ordinary shares.

For monies raised from 6 April 2011 onwards the eligible shares test highlighted above increases to at least 70 per cent of qualifying holdings that must be represented by eligible shares.

In addition, monies raised from share issues from 6 April 2012 onwards are not permitted to be used in transactions involving the acquisition of shares. There is now also an annual limit for each investee company which provides that they may not raise more than £5.0 million of state aid investment (including VCTs) in the 12 months ending on the date of each investment. The Board and Fund Manager are mindful of these additional requirements and of balancing investments to ensure continued compliance.

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 6.72 per cent (2012: 6.99 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.

Risk Factors

The Board carries out a regular review of the risk environment in which the Company operates. The principal risks and uncertainties identified by the Board and techniques used to mitigate these risks are as shown in the table below.

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 September 2012. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 38 to 39 and further information on exposure to risks including those associated with financial instruments is given in note 19a of the financial statements.

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 9) 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 underperformance and poor returns to Shareholders. The quality of enquiries, investments, investee company management teams, monitoring and the risk of not identifying investee company underperformance might also lead to underperformance of the Company 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 company.

Loss of Approval as a VCT

Risk: The Company must comply with Chapter 3 of 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 28.

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 advisers as appropriate. The key controls around the compliance are explained on page 38.

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 advisers 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 pages 38 to 39.

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

Mitigation: Overall liquidity risks are monitored on an ongoing basis by the 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.

Other Matters

The Board recognises the requirement under Section 414 of the Companies Act 2006 to detail information about environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues, including information about any policies it has in relation to these matters and effectiveness of these policies.




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.

The Company had no employees during the year and all the non-executive directors are male. For a review of the policies used when appointing directors to the Board of the Company please refer to the Directors' Remuneration Report on pages 40 to 42.

By Order of the Board

Richard Last
Chairman
28 March 2014

Name	Background and Experience
Richard Last Chairman 	Richard Last (Chairman) is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors, and is chairman and non-executive director of Servelec Group plc, which is listed on the main market of the London Stock Exchange. He is also a chairman and non-executive director of Lighthouse Group plc (a financial services group) and Arcontech Group plc (a financial software business) and a non-executive director of Corero Network Security plc, all AIM listed. In addition he is a director of a number of private companies including APD Communications Limited (an IT company), Learn Solutions Limited (an online tutoring business), both of which he is chairman, and Waste Management Solutions Limited (a waste logistics business).
Robert Martin Pettigrew 	Robert Pettigrew 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 Sagential) 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 currently is an investor-director and non-executive chairman of Acal Energy Limited, Nightingale-EOS Limited, Sunamp Limited and Odos Imaging Limited.
Peter Charles Waller 	Peter Waller 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, director and founder of Turnberry Management Company Limited and non-executive director of BCS Learning & Development Limited and Premier Veterinary Group 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.

Secretary	Registered Office of the Company
KHM Secretarial Services Limited Old Cathedral Vicarage St James Row Sheffield S1 1XA Registered No: 03612770	St Martins House 210-212 Chapeltown Road Leeds LS7 4HZ

Directors' Report

For the year to 31 December 2013

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2013.

Principal Activity and Status

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 principal activity of the Company is the making of long term equity and loan investments, mainly in unquoted businesses.

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.

Results and Dividends

The Statement of Comprehensive Income is set out on page 46.

The profit before and after taxation for the year amounted to £2,131,000 (2012: £852,000 profit).

During the year the Company paid a total of £2,083,000 (2012: £1,722,000) worth of dividends totalling 4.5 pence per ordinary share. A detailed review can be found in note 5 on page 55.

The directors recommend the payment of a final dividend of 2.5 pence per ordinary share (2012: 2.5 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 19 May 2014.

The Net Asset Value per ordinary share at 31 December 2013 was 65.6 pence (2012: 65.5 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 48.

Fund Management

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 Conduct 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 by the Company as at the last business day in December in any year plus the average of the middle market quotation per ordinary share of the Company 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).

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 and Chord Capital Limited. This was 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 2013 or 2012 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 14 January 2014 of the joint offers for subscription Prospectus ("Offer"), arrangements will be put in place to ensure that the benefit of the subscription rights referred to above are extended to include all of the shares issued by the Company under the Offer.

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 within the Strategic Report. In addition, notes 18 and 19 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 via the Offer.

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.

Corporate Governance

The statement on corporate governance set out on pages 35 to 39 is included in the Directors' Report by reference.

Directors' and Officers' Liability Insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors indemnifying them against certain liabilities which may be incurred by any of them in relation to the Company.

Provision of Information to the External Auditor

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.

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 below) for aggregate consideration amounting to £309,302. 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. This authority is recommended for renewal at this year's Annual General Meeting (with all existing authorities to make market purchases of the Company's shares being revoked).

During the year a total of 5,510,680 ordinary shares were issued of which 472,002 were issued under the Company's dividend re-investment scheme. Further details are given in note 11 of the financial statements on page 63.

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 May 2015 in connection with the following:

- the joint offers for subscription with British Smaller Companies VCT plc, up to an aggregate nominal amount of £3,000,000;
- 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.

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 18 February 2019.

In order to ensure the directors retain the authority to allot shares in the Company in addition to those authorities as set out above (other than pursuant to its dividend re-investment scheme) until the Annual General Meeting in 2015, 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 2014 is recommended for renewal at this year's Annual General Meeting.

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 £12,895,794 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.

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; it has one class of ordinary share, each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of the shares that result in restrictions on the transfer of securities or on voting rights;
- there are no shares carrying special rights with regard to the control of the Company;

Issue and Buy-Back of Shares

Date	Number of ordinary shares of 10 pence bought-back	Percentage of issued share capital at that date	Consideration paid per ordinary share
18 April 2013	279,961	0.6%	59.20p
19 June 2013	100,000	0.2%	57.87p
30 October 2013	145,000	0.3%	59.10p

- 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.

Environment

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any emissions producing sources under Part 7 of Schedule 7 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended, including those within its underlying investment portfolio.

Directors and their Interests

The directors of the Company at 31 December 2013, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 40 to 42.

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 has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

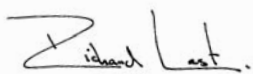
Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 70 to 72 of these financial statements.

The Ordinary business of the meeting includes a resolution (Resolution 9) to be proposed to authorise the directors to issue and allot new shares up to an aggregate nominal amount of £464,436 representing approximately 10 per cent of the share capital of the Company in issue as at 28 March 2014 (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 as ordinary business is a special resolution (Resolution 10) proposed to empower the directors to allot shares up to an aggregate nominal amount of £464,436 representing approximately 10 per cent of the issued share capital of the Company as at 28 March 2014 (excluding treasury shares), without regard to any rights of pre-emption on the part of the existing Shareholders.

This report was approved by the Board on 28 March 2014 and signed on its behalf by



Richard Last
Chairman
British Smaller Companies VCT2 plc
Registered number 04084003

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 principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2013 ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") available on the AIC website www.theaic.co.uk.

The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code 2012 issued by the Financial Reporting Council ("FRC"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. The FRC confirmed in January 2013 that they consider the updated AIC Guide to be appropriate and that investment companies may report against the AIC Code.

The UK Corporate Governance Code 2012 can be found on the website of the Financial Reporting Council at www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to Shareholders.

The Company is committed to maintaining the highest standards of corporate governance and during the year to 31 December 2013 complied with the recommendations of the AIC Code and relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director, those relating to the establishment of an independent Remuneration Committee, the presumption concerning the Chairman's independence and the need for an internal audit function. For the reasons set out in the AIC Guide, and

in the preamble to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of British Smaller Companies VCT2 plc, which is an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

In accordance with the UK Corporate Governance Code issued in September 2012 section C.3.1 the Board should establish an Audit Committee of at least three independent non-executive directors and the Chairman of the Company should not be chair of this Committee. The Company has not complied with this criteria as the chair of the Audit Committee is Mr R Last. Given the size and nature of the Company and the significant experience of Mr R Last at performing this duty it was felt that adequate controls were in place to ensure the Committee remained independent.

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 Mr R 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 31.

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, they are required to 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

Meetings and Committees

Director	R Last	P C Waller	R M Pettigrew
Telephone conference Board meetings	9	7	8
Board meetings attended	8	8	8
Audit Committee meetings attended	3	3	3
Allotment Committee meetings attended	4	3	2
Total	24	21	21

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 both the UK Corporate Governance Code and AIC 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 eight formal Board meetings, three Audit Committee

meetings, and four Allotment Committee meetings. The directors convened Board meetings via telephone conferences on nine 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 2013. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provisions of both the UK Corporate Governance Code and the AIC 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 continue 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 R 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 40 to 42.

Audit Committee

The Audit Committee consists of Mr R Last, Mr R M Pettigrew and Mr P C Waller and meets at least three times each year, and has direct access to Grant Thornton UK LLP, the Company's external auditor. The directors consider that it is appropriate that the Chairman of the Committee should be Mr R Last.

The Audit Committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- monitoring and making recommendations to the Board in relation to the valuation of the Company's unquoted investments;
- monitoring and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Fund Manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The Audit Committee also reviews the terms of the management agreement between the Company and its Fund Manager 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.

The directors' statement on the Company's system of internal control is set out below.

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.

The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee, and that the chairman of the Committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However the Committee considers annually whether there is a need for such a function and if considered necessary would recommend this to the Board.

During the year ended 31 December 2013 the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks;
- reviewing YFM Private Equity Limited's statement of internal controls operated in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing reports on the effectiveness of YFM Private Equity Limited's compliance procedures;

- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial statements, half yearly results statement and interim management statements prior to Board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements; and
- recommending to the Board and Shareholders the re-appointment of Grant Thornton UK LLP as the Company's external auditor.

The key areas of risk that have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company are as follows:

- valuation of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

These issues were discussed with the Fund Manager and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments: the Fund Manager and the auditor confirmed to the Audit Committee that the investment valuations had been carried out consistently with prior periods and in accordance with the published industry guidelines, taking account of the latest available information about investee companies and current market data. The Audit Committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they were appropriate.

Venture capital trust status: the Fund Manager confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by PricewaterhouseCoopers LLP in its capacity as adviser to the Company on taxation matters.

The Fund Manager confirmed to the Audit Committee that they were not aware of any material misstatements. The auditor, via its Audit Findings report, did not highlight any material misstatements for the audit.

Having reviewed the reports received from the Fund Manager and the auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the Company's financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The Committee considers that Grant Thornton UK LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of audit effectiveness and independence, Grant Thornton UK LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. Grant Thornton UK LLP has held office for five years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner has served for three years.

Having completed its review the Audit Committee is satisfied that Grant Thornton UK LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. No non-audit services were provided by Grant Thornton UK LLP during the year (see note 3 to the financial statements).

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 who 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 currently 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

(unless it is an allotment under the Company's DRIS when it is only one director) which meets as and when required to formally approve the allotment of shares.

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 an annual newsletter, the daily notification of the Company's share price and the publication for the two quarters of the year when an Annual or Interim Report is not issued (31 March and 30 September) through the London Stock Exchange of the Net Asset Value of the Company, together with a posted factsheet detailing developments for the Company in that quarter.

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 CEOs of some of the investee companies. During the year the Company's Fund Manager has 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 75.

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 75. 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 and those identified in Principle 2 of the AIC Code were in place throughout the year ended 31 December 2013 and up to the date of this report. A detailed review of the risks faced by the Company and the techniques used to mitigate these risks can be found in the Strategic Report on pages 29 to 30.

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 this 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: Revised 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 on pages 38 and 39 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 pages 37 and 38); and
- the Board reviews financial information including the Annual Report, Interim Report and Interim Management Statements prior to their 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 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; and
- the Company has communicated its anti-bribery and corruption 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 with investee companies 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 from investee companies to facilitate the monitoring, by YFM Private Equity Limited, of an investee company's performance in accordance with best practice in the private equity sector.

VCT Regulation

The Company's 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 28.

Co-Investment

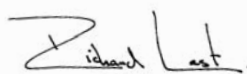
Typically the Company invests alongside other venture capital funds, such as syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review within the Strategic Report. Co-investments alongside other funds also managed by the Fund Manager are detailed in note 7 to the financial statements on page 61.

Management

The Board has delegated the management of the investment portfolio to the Fund Manager.

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 VCTs and in making and exiting investments of the kind falling within the Company's investment policy.

This report was approved by the Board on 28 March 2014 and signed on its behalf by



Richard Last
Chairman
British Smaller Companies VCT2 plc
Registered number 04084003

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). Ordinary resolutions for the approval of this report and the Directors' Remuneration Policy will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditor, Grant Thornton UK LLP, to audit certain information included in this report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the Independent Auditor's Report on pages 44 to 45.

Directors' Remuneration Policy

This statement of the Directors' Remuneration Policy is intended to take effect following approval by Shareholders at the Annual General Meeting to be held on 19 May 2014.

The Board currently comprises three directors, all of whom are non-executive. 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.

The Board has not retained external advisers in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and nature. Shareholders' views in respect of the directors' remuneration are communicated at the Company's Annual General Meeting and are taken into consideration in formulating the Directors' Remuneration Policy.

At the last Annual General Meeting, over 87 per cent of Shareholders voted for the resolution approving the Directors' Remuneration Report showing significant Shareholder support (2,917,299 proxy votes

received – 2,536,457 votes in favour; 70,406 votes against and 223,743 votes withheld).

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, to be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the directors needed to oversee properly the Company and to reflect the duties and responsibilities of the directors and the value and amount of time committed to the Company's affairs.

It is not considered appropriate that directors' remuneration should be performance-related, and as such the directors are not eligible for bonuses, share options, pension benefits, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the Company.

It is the Board's policy that directors do not have service contracts, but new directors are provided with a letter of appointment. The terms of directors' appointments provide that directors should retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter, it has been agreed that all directors will offer themselves for re-election on an annual basis. There is no notice period for Messrs R Last or R M Pettigrew, but Mr P C Waller's appointment is terminable by him or the Company on three months' notice, and any director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services. There were no payments for loss of office made during the period.

It is proposed that the directors' fees payable by the Company for the year ending 31 December 2014 be fixed at £31,500 per annum for the Chairman and £18,000 per annum for the other directors.

Directors' remuneration (audited)

Table A

	2013 £	2012 £
R Last	31,500	31,500
R M Pettigrew	18,000	18,000
P C Waller	18,000	18,000
	67,500	67,500

Directors and their Interests (audited)**Table B**

	Number of ordinary shares at	
	31 December 2013	31 December 2012
R Last	120,912	115,972
R M Pettigrew	54,292	54,292
P C Waller	17,111	14,706

Relative Importance of Spend on Pay

As the Company has no employees, there is no requirement to present a table comparing remuneration paid to employees with distributions to Shareholders.

Consideration of Employment Conditions of Non-Director Employees

Since the Company does not have any employees, the disclosures required under paragraph 38 and 39 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are not required.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Fund Manager through the management agreement, as referred to in the "Directors' Report" on page 32.

The graph overleaf 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.

Directors and their Interests (unaudited)**Table C**

Future commitments	Number of ordinary shares
R Last	5,970
R M Pettigrew	4,477
P C Waller	8,955

Assuming this policy is approved by the Shareholders at the forthcoming Annual General Meeting, it is intended that this policy will continue for the year ending 31 December 2014 and subsequent years. In accordance with the Regulations, an ordinary resolution to approve the Directors' Remuneration Policy will be put to Shareholders at least once every three years.

Brief biographical notes on the directors are given on page 31.

Directors' Remuneration for the year ended 31 December 2013 (audited)

The directors who served in the year received the emoluments, as shown in Table A on page 40, in the form of fees, which represent the entire remuneration payable to them. The directors do not receive any other form of emoluments and their remuneration is not linked to the performance of the Company.

There are no executive directors (2012: none).

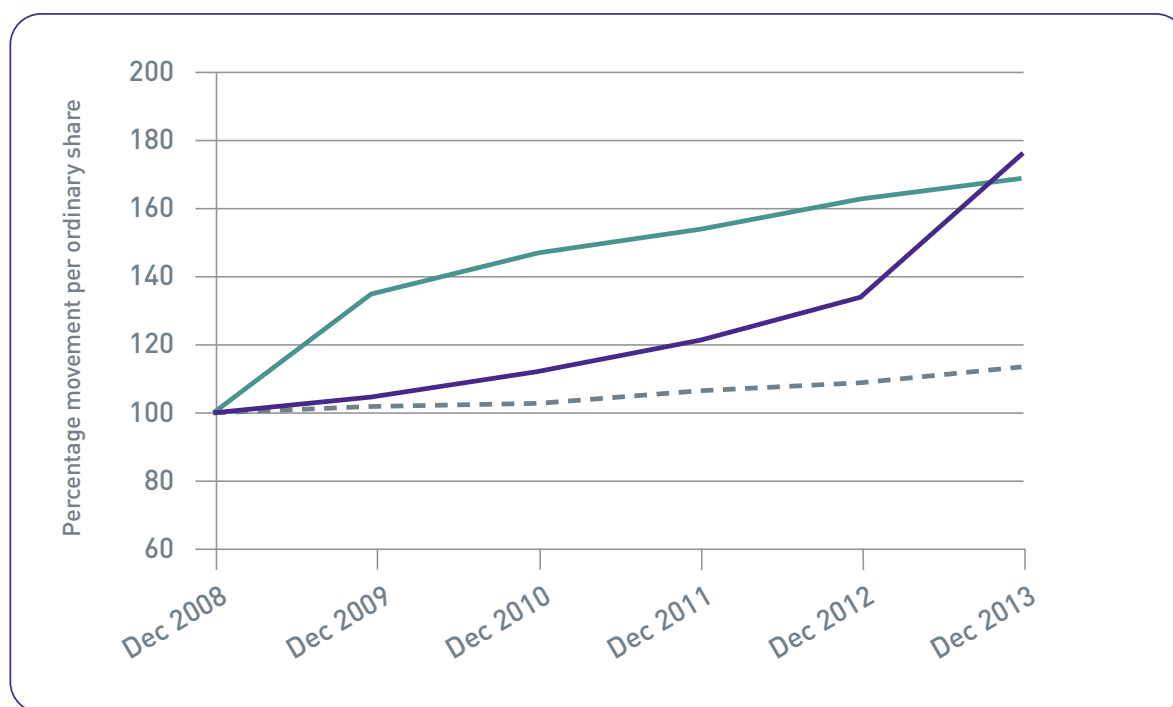
Directors and their Interests (audited)

The directors of the Company at 31 December 2013 and their beneficial interests in the share capital of the Company (including those of immediate family members) are shown in Table B.

Directors and their Interests (unaudited)

In addition to the above, the directors have since the year end committed to subscribe for new ordinary shares under the current joint offers for subscription, as shown in Table C, which will be allotted on 5 April 2014 or 30 April 2014 (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.

The Company has not set out any formal requirement or guidelines concerning their ownership of shares in the Company.



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

*Note the data has been rebased as at December 2008.

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.

Statement by the Chairman of the Nomination Committee

The directors' fees payable by the Company have been fixed at £31,500 per annum for the Chairman and £18,000 per annum for the other directors. In accordance with the Directors' Remuneration Policy the directors' fees were reviewed by the Board. It was agreed by the Board of directors on 20 May 2013 to hold these fees constant and to review them again in a year's time.

This report was approved by the Board and signed on its behalf on 28 March 2014.

Richard Last
Chairman

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS").

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 and loss of the Company for the year.

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 International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

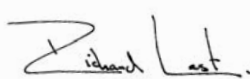
The Company's financial statements are published on the YFM Equity Partners Limited ("YFM") website, www.yfmep.com. The maintenance and integrity of this website is the responsibility of YFM and not of the Company. The audit work carried out by Grant Thornton UK LLP as independent auditor of the Company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

The directors confirm to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy; and
- the Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

This statement was approved by the Board and signed on its behalf on 28 March 2014.



Richard Last
Chairman

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 2013 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 Directors' Responsibilities Statement set out on page 43, 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 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 Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Auditor commentary

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day to day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to the Company's Fund Manager as a third-party service provider. Accordingly, our audit work is focused on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service provider, and inspecting records and documents held by the third-party service provider. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We established materiality for the financial statements as a whole to be £153,000, which is 0.5 per cent of the Company's total assets. For the Statement of Comprehensive Income we determined that misstatements of lesser amounts than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for the Statement of Comprehensive Income to be £108,000.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £5,000. In addition, we will communicate misstatements below that threshold that, in our opinion, warrant reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality levels specified above and was performed at the Fund Manager, YFM Private Equity Limited's, head office in Leeds.

Our assessment of risk

Without modifying our opinion, we highlight the following matter that is, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to this matter were designed in the context of our audit of the Company's financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Valuation of unquoted investments

Investments are the largest asset in the financial statements, and they are designated as being at fair value through profit or loss in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", with the profits and gains on investments held at fair value being significant and material amounts in the Statement of Comprehensive Income. Measurement of the value of unquoted investments includes significant assumptions and judgements. We therefore identified the valuation of unquoted investments as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to: obtaining an understanding of how valuations are performed; consideration of whether the valuations were made in accordance with published guidance and agreement of assumptions to available supporting information; reviewing and challenging the basis and reasonableness of the assumptions and judgements made by the Fund Manager, which included using our valuation specialists.

The Company's accounting policy on the valuation of unquoted investments is included in note 1 and its disclosures about unquoted investments held at the year end are included in note 7.

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 2013 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.

Other reporting responsibilities

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 Strategic Report and 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or

- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that were communicated to the Audit Committee which we consider should have been disclosed.

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; or
- a Corporate Governance statement has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 32 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Paul Houghton

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor,
Chartered Accountants,
Sheffield
28 March 2014

Statement of Comprehensive Income

For the year to 31 December 2013

	Notes	2013			2012		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on realisation of investments	7	–	596	596	–	1,662	1,662
Gains (losses) on investments held at fair value	7	–	1,748	1,748	–	(622)	(622)
Income	2	689	–	689	594	–	594
Administrative expenses:							
Fund management fee		(141)	(421)	(562)	(116)	(346)	(462)
Other expenses		(340)	–	(340)	(320)	–	(320)
	3	(481)	(421)	(902)	(436)	(346)	(782)
Profit before taxation		208	1,923	2,131	158	694	852
Taxation	4	–	–	–	(4)	4	–
Profit for the year		208	1,923	2,131	154	698	852
Total comprehensive income for the year		208	1,923	2,131	154	698	852
Basic and diluted earnings per ordinary share	6	0.46p	4.27p	4.73p	0.43p	1.96p	2.39p

The accompanying notes on pages 51 to 69 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.

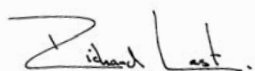
Balance Sheet

At 31 December 2013

	Notes	2013 £000	2012 £000
Assets			
Non-current assets			
Investments		16,255	11,363
Fixed income securities		890	912
Financial assets at fair value through profit or loss	7	17,145	12,275
Trade and other receivables	8	132	198
		17,277	12,473
Current assets			
Trade and other receivables	8	123	423
Cash on fixed term deposit		4,500	7,048
Cash and cash equivalents	9	8,680	7,484
		13,303	14,955
Liabilities			
Current liabilities			
Trade and other payables	10	(122)	(276)
Net current assets		13,181	14,679
Net assets		30,458	27,152
Shareholders' equity			
Share capital	11	4,822	4,271
Share premium account		4,926	14,806
Capital redemption reserve		88	88
Other reserve		2	2
Merger reserve		5,525	5,525
Capital reserve		14,568	7,225
Investment holding gains and losses		448	(4,919)
Revenue reserve		79	154
Total Shareholders' equity		30,458	27,152
Net Asset Value per ordinary share	12	65.6p	65.5p

The accompanying notes on pages 51 to 69 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 2014 by



Richard Last
Chairman

Statement of Changes in Equity

For the year ended 31 December 2013

	Share capital	Share premium account	*Other reserves	Merger reserve	Capital reserve	Investment holding gains and losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2011	2,426	4,427	90	5,525	6,885	(3,665)	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	–	–	(1,612)	–	(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	7,225	(4,919)	154	27,152
Revenue return for the year	–	–	–	–	–	–	208	208
Capital expenses	–	–	–	–	(421)	–	–	(421)
Investment holding gain on investments held at fair value	–	–	–	–	–	1,748	–	1,748
Realisation of investments in the year	–	–	–	–	596	–	–	596
Total comprehensive income for the year	–	–	–	–	175	1,748	208	2,131
Issue of share capital	504	2,964	–	–	–	–	–	3,468
Issue costs**	–	(178)	–	–	–	–	–	(178)
Purchase of own shares	–	–	–	–	(309)	–	–	(309)
Issue of shares – DRIS	47	239	–	–	–	–	–	286
Dividends	–	–	–	–	(1,800)	–	(283)	(2,083)
Cancellation of share premium account net of costs	–	(12,905)	–	–	12,896	–	–	(9)
Total transactions with owners	551	(9,880)	–	–	10,787	–	(283)	1,175
Realisation of negative goodwill	–	–	–	–	177	(177)	–	–
Realisation of prior year investment holding losses	–	–	–	–	(3,796)	3,796	–	–
Balance at 31 December 2013	4,822	4,926	90	5,525	14,568	448	79	30,458

The accompanying notes on pages 51 to 69 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.

Statement of Changes in Equity (continued)

for the year ended 31 December 2013

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 (now included within the capital reserve – please see below) was initially 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. In addition to this, 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, less legal costs of £9,247, 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.

The capital reserve includes gains and losses compared to cost on the realisation of investments, capital expenses, together with the related taxation effect, capital dividends paid to Shareholders and the cost of any share buy-backs made by the Company. This is a distributable reserve. The investment holding gains and losses reserve includes increases and decreases in the valuation of investment held at fair value. This is a non-distributable reserve.

The capital reserve and revenue reserve are both distributable reserves. These reserves total £14,647,000 (2012: £7,379,000) representing an increase of £7,268,000 (2012: £200,000 increase) during the year. This change arises from the revenue profit in the year of £208,000 (2012: £154,000 profit), movements in the capital reserve relating to the realisation of investments and capital expenses of £175,000 profit (2012: £1,846,000 profit), dividends of £2,083,000 (2012: £1,722,000), purchase of shares of £309,000 (2012: £184,000), the realisation of negative goodwill of £177,000 (2012: £106,000), the cancellation of the Company's share premium account of £12,896,000 (2012: nil) and the realisation of prior year investment holding losses of £3,796,000. The directors also take into account the level of the investment holding gains and losses reserve when determining the level of dividend payments.

During the year a presentational adjustment has been made to the Statement of Changes in Equity, such that the special reserve and capital reserve are now shown in total. This has been done to allow for a clearer understanding of the movements during the period. Please see the accounting policies on page 52 for a breakdown of what items are allocated against these reserves.

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Net cash outflow from operating activities	14	(79)	(354)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	7	(5,499)	(4,867)
Proceeds from sale of financial assets at fair value through profit or loss	7	2,926	5,239
Deferred consideration	7	125	99
Cash placed on fixed term deposit		(4,500)	(7,048)
Cash maturing from fixed term deposits		7,048	–
Net cash inflow (outflow) from investing activities		100	(6,577)
Cash flows from financing activities			
Issue of share capital		3,412	12,743
Issue costs		(122)	(605)
Purchase of own shares		(309)	(184)
Dividends paid		(1,797)	(1,615)
Share premium cancellation cost		(9)	–
Net cash inflow from financing activities		1,175	10,339
Net increase in cash and cash equivalents		1,196	3,408
Cash and cash equivalents at the beginning of the year		7,484	4,076
Cash and cash equivalents at the end of the year	9, 15	8,680	7,484

The accompanying notes on pages 51 to 69 are an integral part of these financial statements.

Notes to the Financial Statements

For the year to 31 December 2013

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' (SoRP) issued by the Association of Investment Companies in January 2009 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. The only new standard effective for the year ended 31 December 2013 which has had a material impact on the financial statements is IFRS 13 "Fair Value Measurement". Note 7 of the financial statements includes investments disclosed in the fair value hierarchy classification under IFRS 13 and includes the relevant fair value disclosures as required by IFRS 13. There has been no material change to the measurement of fair values of investments from the implementation of IFRS 13.

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 9, IFRS 10, IFRS 11 and IFRS 12, and amendments to IAS 27 and IAS 28. 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 and corporate bonds are classified at fair value through profit or 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.

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 December 2012. Quoted investments are valued at market bid prices. 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', which gives 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. Dividend income on quoted equity shares is recognised on the ex-dividend date. 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. 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 Reserves

(i) Capital Reserve

The following are accounted for in this reserve:

- Gains and losses on realisation of investments, together with the related taxation effect;
- Permanent diminution in value of investments;
- 75 per cent of management fee expense, together with the related tax effect to this reserve in accordance with the above policy on expenses;
- Capital dividends paid to Shareholders;
- Cost of share buy-backs; and
- Credit arising from the cancellation of the share premium account.

(ii) Investment Holding Gains and Losses Reserve

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

In accordance with stating all investments at fair value through profit and loss, all such movements through both revaluation and realised capital reserves are now shown within the Income Statement for the year.

Following the merger between the Company and British Smaller Technologies Companies VCT plc, a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is released at the point of disposal to the capital reserve. At 31 December 2013, a total of £44,000 was held on investments yet to be realised in the investment holding gains and losses reserve.

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.

1. Principal Accounting Policies (continued)

Dividends Payable

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

Segmental Reporting

In accordance with IFRS 8 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

	2013 £000	2012 £000
Dividends from unquoted companies	40	8
Dividends from AIM quoted companies	44	44
Interest on loans to unquoted companies	384	339
Fixed income Government securities	18	20
Income from investments held at fair value through profit or loss	486	411
Interest on bank deposits	203	183
	689	594

The above is stated net of £57,000 (2012: £52,000) of income in relation to loan interest, which has been fully provided for.

3. Administrative Expenses

	2013 £000	2012 £000
Fund management fee	562	462
Other expenses:		
Administration fee	58	57
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	190	171
	902	782

No fees were payable to the auditor in respect of other services (2012: £nil).

3. Administrative Expenses (continued)

The expenses benchmark recommended by the Association of Investment Companies (AIC) is the "Ongoing Charges Percentage". The table below shows the Company's percentage in the past twelve months as well as for comparative periods.

In order to provide Shareholders with comparable data to prior periods and to assist understanding of the fund management agreement the Company has chosen to disclose the Total Expense Ratio (TER%). This is calculated as the annual ongoing charges (excluding trail commission and irrecoverable VAT) over Total Net Assets as at the relevant period end and is currently capped at 3.25 per cent, whereby excess costs over this value are absorbed by the Fund Manager. The annualised TER% as at 31 December is shown below:

	12 months December 2013 (%)	12 months December 2012 (%)
Ongoing charges	2.75	2.82
Total Expense Ratio (TER)	2.68	2.65

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.

When the Company makes investments into its unquoted portfolio the Fund Manager charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. During the year the Company and the Fund Manager agreed that, with effect from 1 October 2013, if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on holdings over the Company's financial year this excess will be rebated to the Company. As at 31 December 2013, the Company was due a rebate from the Fund Manager of £11,500.

The total remuneration payable to YFM Private Equity Limited in the period was £620,000 (2012: £519,000).

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 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 2013 the total of cumulative cash dividends paid and mid market price was 98.50 pence per ordinary share. No shares have been issued in either year under this agreement.

Under the terms of the joint offer with British Smaller Companies VCT plc launched on 16 November 2012 (which closed on 30 April 2013), the Fund Manager was entitled to 5.5 per cent of gross subscriptions (before any early investment incentive and re-investment of intermediary commission) for all applications received on or before 28 December 2012. After this date the Fund Manager was entitled to 5.5 per cent of gross subscriptions from execution brokers and 3.5 per cent of gross subscriptions for applications received directly from applicants or through intermediaries offering financial advice. This amounted to £279,492 of which £159,592 was received in the six months to 30 June 2013.

The Fund Manager met all costs and expenses arising from these offers out of these fees, including any payment or re-investment of initial intermediary commissions (excluding permissible trail commission, which continue to be met by the Company).

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

4. Taxation

	2013			2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Corporation tax at 20% (2012: 20%)	–	–	–	–	–	–
Profit before taxation	208	1,923	2,131	158	694	852
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2012: 20%)	42	385	427	32	139	171
Effect of:						
UK dividends received	(17)	–	(17)	(10)	–	(10)
Non taxable profits on investments	–	(469)	(469)	–	(208)	(208)
Excess management expenses	(25)	84	59	(18)	65	47
Tax charge (credit)	–	–	–	4	(4)	–

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

Deferred tax assets of £559,000 calculated at 20 per cent (2012: £500,000 calculated at 20 per cent) in respect of unrelieved management expenses (£2.797 million as at 31 December 2013 and £2.502 million as at 31 December 2012) 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:

	2013			2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2012 of 2.5p (2011 year end: 2.0p) per ordinary share	154	1,001	1,155	294	472	766
Interim dividend for the year ended 31 December 2013 of 2.0p (2012: 2.0p) per ordinary share	129	799	928	–	765	765
Special dividend of 0.5p per ordinary share	–	–	–	–	191	191
	283	1,800	2,083	294	1,428	1,722
Shares issued under DRIS			(286)			(107)
Dividends paid in Statement of Cash Flows			1,797			1,615

The final year end dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2012 was paid on 5 June 2013 to Shareholders on the register at 3 May 2013.

The interim dividend of 2.0 pence per ordinary share was paid on 27 September 2013 to Shareholders on the register as at 30 August 2013.

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2013 is proposed. This dividend has not been recognised in the year ended 31 December 2013 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 per ordinary share is based on the profit after tax attributable to Shareholders of £2,131,000 (2012: £852,000 profit) and 45,070,587 (2012: 35,591,107) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings per ordinary share is based on the profit for the year attributable to Shareholders of £208,000 (2012: £154,000) and 45,070,587 (2012: 35,591,107) 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 £1,923,000 (2012: £698,000) and 45,070,587 (2012: 35,591,107) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 5,510,680 ordinary shares. The Company has also repurchased 524,961 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 2013 or 31 December 2012. 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 2013 and 31 December 2012.

7. Financial Assets at Fair Value Through Profit or Loss

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

- **Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise AIM quoted investments or Government securities and other fixed income securities classified as held at fair value through profit or loss.
- **Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company held no such instruments in the current or prior year.
- **Level 3:** the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it is included at the beginning of each accounting period. There has been one transfer between these classifications in the year to 31 December 2013 (2012: none) following the listing of Cambridge Cognition Holdings plc on the Alternative Investment Market. The change in fair value for the current and previous year is recognised through profit or loss.

All items held at fair value through profit or loss were designated as such upon initial recognition and are subject to recurring valuations on at least a quarterly basis.

Valuation of Investments

Full details of the methods used by the Company are set out on page 27 of these financial statements. Where investments are held in quoted stocks, fair value is set at the market price.

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

All items held as 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 2013 are summarised as follows:

IFRS 13 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	13,780**	2,092	15,872	888	16,760
Opening investment holding (loss) gain	(4,423)**	(86)	(4,509)	24	(4,485)
Opening fair value at 1 January 2013	9,357	2,006	11,363	912	12,275
Transfer between Level 1 and Level 3***	(194)	194	-	-	-
Additions at cost	5,149	350	5,499	-	5,499
Capitalised interest	12	-	12	-	12
Disposal proceeds	(2,270)	(656)	(2,926)	-	(2,926)
Net profit on disposal	378	159	537	-	537
Change in fair value in the year on assets held at 31 December 2013	1,356	414	1,770	(22)	1,748
Closing fair value at 31 December 2013	13,788	2,467	16,255	890	17,145
Closing cost	13,792	2,061	15,853	888	16,741
Closing investment holding (loss) gain	(4)	406	402	2	404
Closing fair value at 31 December 2013	13,788	2,467	16,255	890	17,145

Following the merger between the Company and British Smaller Technologies Companies VCT plc, a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is released at the point of disposal to the capital reserve. At 31 December 2013, a total of £44,000 was held on investments yet to be realised in the investment holding gains and losses reserve.

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

** During the year to December 2013 three investments deemed in 2012 as having been written off from the portfolio were re-instated with a carrying value of zero. This has had no effect on either the opening or closing carrying value of investments but has resulted in both a higher value for the cost of investments held and higher value for the investment holding gain or loss.

*** During the year Cambridge Cognition Limited was listed on AIM becoming Cambridge Cognition Holdings plc.

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 2012 are summarised as follows:

FRS 13 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	9,139	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.

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 2013	2,918	9,357	12,275
Additions at cost	350	5,149	5,499
Capitalised interest	–	12	12
Disposal proceeds	(657)	(2,269)	(2,926)
Net profit on disposal	160	377	537
Change in fair value in the year on assets held at 31 December 2013	392	1,356	1,748
Closing fair value at 31 December 2013	3,163	13,982	17,145

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. Each unquoted portfolio company has been reviewed in order to identify the sensitivity of the valuation methodology to using alternative assumptions. Where discounts have been applied (for example to Earnings levels or P/E ratios) alternatives have been considered which would still fall within the IPEVC Guidelines (see page 27). For each unquoted investment, two scenarios have been modelled; more prudent assumptions (downside case) and more optimistic assumptions (upside case). Applying the downside alternative the value of the unquoted investments would be £1.49 million or 10.78 per cent lower. Using the upside alternative the value would be increased by £1.11 million or 8.05 per cent.

The total of fair value adjustments below cost made against unquoted investments during the year ended 31 December 2013 amounted to £524,000 (2012: £511,000).

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company. In 2012 there were also no such individual reductions.

Fixed income securities are UK Government stocks and corporate bonds 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 2013	Profit on disposal
	£000	£000	£000	£000
Digital Healthcare Limited	1,285	3,072	913	372
Pressure Technologies plc	293	134	142	151
May Gurney Integrated Services plc	94	106	70	24
Tikit Group plc	266	184	262	4
Callstream Group Limited (formerly Bluebell Telecoms Group Limited)	96	62	90	6
Seven Technologies Holdings Limited	700	700	700	–
Bagel Nash Group Limited	13	13	13	–
Waterfall Services Limited	167	167	167	–
GTK (UK) Limited	9	9	9	–
2 Ergo Group plc	3	197	23	(20)
Purely Proteins Limited	–	438	–	–
Express on Biosystems Limited	–	450	–	–
	2,926	5,532	2,389	537
<i>Deferred proceeds:</i>				
DxS Limited (received in the year)	90	–	70	20
Primal Pictures Limited (received in the year)	35	–	18	17
Primal Pictures Limited (included in receivables)	12	–	–	12
Sirigen Group Limited (included in receivables)	10	–	–	10
Total proceeds from quoted and unquoted investments	147	–	88	59
Fixed Income Securities	–	–	–	–
Total	3,073	5,532	2,477	596

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, \$410,000 in relation to escrow accounts regarding potential liabilities and the remainder subject to Sirigen Group Limited achieving specific performance milestones. At the year end £120,000 was included within non-current receivables in respect of this deferred consideration.

Additionally the Company may become entitled to receive up to £24,000 in respect of the sale of Primal Pictures Limited in relation to escrow amounts regarding utilisation of tax losses. At the year end £12,000 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 2012 (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

Significant Interests

At 31 December 2013 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	33,091	Ordinary	5%	40%
Deep-Secure Limited	Security software	50,000	Ordinary	7%	50%
DisplayPlan Holdings Limited	Consumer retail	1,260	Ordinary	12%	35%
Gill Marine Holdings Limited	Retail	138,137	Ordinary	14%	66%
Ellfin Home Care Limited	Healthcare	27,259	Ordinary	6%	74%
GTK (Holdings) Limited	Manufacture	14,603,200	Ordinary	16%	45%
Harvey Jones Holdings Limited	Manufacture/distribution	38,858	Ordinary	3%	30%
Immunobiology Limited	Healthcare	20,109,968	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	738,260	Ordinary	3%	38%
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.

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.

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 2013 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc	British Smaller Companies EIS Fund	North West Business Investment Scheme	The Chandos Fund	The Capital Fund No. 1 LP	The Partnership Investment Equity Fund LP	Total managed in other funds
	£000	£000	£000	£000	£000	£000	£000
Gill Marine Holdings Limited	2,600	600	–	4,000	–	–	7,200
Seven Technologies Holdings Limited	1,984	370	–	3,942	–	–	6,296
Ellfin Home Care Limited	823	–	886	1,774	–	–	3,483
Bagel Nash Group Limited	1,226	–	–	2,111	–	–	3,337
Harvey Jones Holdings Limited	777	–	–	2,234	–	–	3,011
Deep-Secure Limited	1,000	–	–	2,000	–	–	3,000
GTK (Holdings) Limited	1,736	250	–	–	–	–	1,986
PowerOasis Limited	425	–	–	1,133	–	–	1,558
Leengate Holdings Limited	1,401	–	–	–	–	–	1,401
DisplayPlan Holdings Limited	1,300	–	–	–	–	–	1,300
Insider Technologies (Holdings) Limited	1,170	–	–	–	–	–	1,170
RMS Group Holdings Limited	180	–	–	250	–	200	630
Selima Limited	600	–	–	–	–	–	600
EKF Diagnostics Holdings plc	216	–	–	–	299	–	515
Callstream Group Limited (formerly Bluebell Telecoms Group Limited)	438	–	–	–	–	–	438
Vianet Group plc	404	–	–	–	–	–	404
TeraView Limited	375	–	–	–	–	–	375
Cambridge Cognition Limited	325	–	–	–	–	–	325
Hargreaves Services plc	310	–	–	–	–	–	310
Pressure Technologies plc	252	–	–	–	–	–	252
AB Dynamics plc	224	–	–	–	–	–	224
Waterfall Services Limited	100	–	–	–	–	–	100
Total	17,866	1,220	886	17,444	299	200	37,915

8. Trade and Other Receivables

	2013 £000	2012 £000
Non-current assets:		
Accrued income	132	198
Current assets:		
Trade receivables	191	158
Less: Allowances for credit losses on trade receivables	(151)	(94)
Prepayments and accrued income	83	359
	123	423
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	94	42
Additions – charged to Statement of Comprehensive Income	57	52
Allowances as at 31 December	151	94

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 2013, trade receivables of £40,000 (2012: £64,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2013 £000	2012 £000
1 – 3 months	40	64

As of 31 December 2013, there was £151,000 of trade receivables (2012: £94,000) impaired and provided for. The ageing of these receivables is as follows:

	2013 £000	2012 £000
1 – 3 months	15	13
3 – 6 months	15	13
6 – 12 months	27	26
More than 12 months	94	42
Allowances as at 31 December	151	94

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 £40,000 (2012: £64,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2013 £000	2012 £000
Cash at bank	8,680	4,984
Cash equivalents	–	2,500
Cash and cash equivalents	8,680	7,484

A further £4.5 million is also held in a fixed term deposit account maturing in August 2014.

In 2012 the Company held two deposits of £3.048 million and £3.5 million. These amounts were due for maturity in June and December 2013 respectively.

In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year were shown separately as a current asset on the face of the balance sheet.

10. Trade and Other Payables

	2013 £000	2012 £000
Amounts payable within one year:		
Accrued expenses	122	276
	122	276

11. Share Capital

	2013 Allotted, called-up and fully paid £000	2012 Allotted, called-up and fully paid £000
Ordinary shares of 10 pence Issued: 48,221,285 (2012: 42,710,605) including 1,777,722 shares held in treasury (2012: 1,252,761)	4,822	4,271

The movement in the year was as follows:

		Price	Date	Number of shares	Share capital £000
Total as at 1 January 2013				42,710,605	4,271
Issue of shares	Fundraising	68.00 pence	5 April 2013	2,236,692	224
Issue of shares	Fundraising	69.50 pence	5 April 2013	2,191,606	219
Issue of shares	Fundraising	68.00 pence	30 April 2013	51,801	5
Issue of shares	Fundraising	69.50 pence	30 April 2013	558,579	56
Issue of shares	DRIS	61.09 pence	5 June 2013	254,976	25
Issue of shares	DRIS	60.14 pence	27 Sept 2013	217,026	22
As at 31 December 2013 (including treasury shares)				48,221,285	4,822

As part of the Company's 2012/13 and 2013/14 fundraising, bonus shares were offered to existing Shareholders who subscribed before 28 December 2012. These bonus shares were issued in April 2013 with no corresponding cash proceeds and has resulted in a difference between the issue of equity in the Statement of Changes in Equity and the cash proceeds received in the Statement of Cash Flows for the year ended 31 December 2013.

During the year the Company purchased 524,961 (2012: 323,639) 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 2013.

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 Note 3: Administration Expenses on page 54. 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 £30,458,000 (2012: £27,152,000) and 46,443,563 (2012: 41,457,844) 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 2013.

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 2013 or 31 December 2012. Consequently, basic and diluted Net Asset Value per ordinary share is the same for the year ended 31 December 2013 and 31 December 2012.

13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 39.0 pence per ordinary share (2012: 34.5 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

	2013 £000	2012 £000
Profit before taxation	2,131	852
(Decrease) increase in trade and other payables	(154)	26
Decrease (increase) in trade and other receivables	300	(181)
Gains on disposal of investments in the year	(596)	(1,662)
(Profit) losses on investments held at fair value	(1,748)	622
Capitalised interest	(12)	(11)
Net cash outflow from operating activities	(79)	(354)

Cash movements in the net cash outflow from operating activities above include the following:

	2013 £000	2012 £000
Dividends received	78	44
Interest received		
– loan interest	377	304
– gilt interest	20	26
– deposit interest	203	183
Total interest and dividends received	678	557

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2013 £000	Cash flow £000	31 December 2013 £000
Cash at bank	4,984	3,696	8,680
Cash held on fixed term deposit	2,500	(2,500)	–
	7,484	1,196	8,680

A further £4.5 million is also held in a fixed term deposit account maturing in August 2014.

In 2012 the Company held two deposits of £3.048 million and £3.5 million. These amounts were due for maturity in June and December 2013 respectively.

In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year were shown separately as a current asset on the face of the balance sheet.

16. Financial Commitments

At 31 December 2013 the Board had committed a total of £4.24 million for investment into new portfolio companies subject to satisfactory due diligence and legal completion.

17. Events after the Balance Sheet Date

Following the period end a significant investment of £1.64 million has been made to fund the management buyout of Mangar International Limited, a world leader in inflatable lifting and handling bathing equipment for the elderly, disabled and emergency services market. Further to this in March 2013 the Company invested a further £0.07 million into existing quoted portfolio company EKF Diagnostics plc to support further acquisitions to be undertaken by the company.

Subsequent to the year end the Company has made a number of disposals from the quoted portfolio. In January 2014 the Company disposed of its full investment holding in Optos plc generating proceeds of £150,000, as well as the realisation of 35,000 shares in Iomart Group plc which generated an additional £97,000 of proceeds. Whilst in February the Company disposed of 17,000 shares in Pressure Technologies plc generating proceeds of £99,500 and a profit on the 31 December 2013 carrying value of £18,500.

In the three months since the year end the Company has also received £320,000 of monthly capital loan repayments from investee companies. The most significant of these was £228,000 received in January 2014 from Displayplan Holdings Limited as part of an early loan repayment agreed with the company.

18. 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 current, notice and fixed term bank accounts and fixed income Government securities or corporate bonds 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

	2013		2012	
	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	–	17,145	–	12,275
Trade and other receivables	132	–	198	–
Current assets				
Cash and cash equivalents	8,680	–	7,484	–
Cash on fixed term deposit	4,500	–	7,048	–
Trade and other receivables	41	–	64	–
	13,353	17,145	14,794	12,275
Other assets – not financial instruments	82	–	359	–
	13,435	17,145	15,153	12,275

18. Financial Instruments (continued)

Liabilities as per balance sheet

	2013 Other financial liabilities £000	2012 Other financial liabilities £000
Trade and other payables	(122)	(276)
	(122)	(276)

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.

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.

18a 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.

15 per cent of the Company's equity investments are quoted on AIM (2012: 18 per cent). A 5 per cent increase in stock prices as at 31 December 2013 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £123,000 (2012: £100,000). 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.

85 per cent of the Company's equity investments are in unquoted companies held at fair value (2012: 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 £1,060,000 (3.5 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 £1,044,000 (3.4 per cent of net assets).

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 0.2 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in DisplayPlan Holdings Limited which constitutes 7.0 per cent (2012: 5.5 per cent) 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 2.0 per cent (2012: 3.0 per cent) of the value of net assets.

18. Financial Instruments (continued)

Interest Rate Risk

The Company's venture capital investments include £7,703,000 (2012: £4,326,000) 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. 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.

	2013			2012		
	£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	7,703	9.76	46	4,326	10.15	37
Government gilts	892	1.99	29	912	1.99	42
Cash on fixed term deposit	4,500	1.50	8	7,048	2.20	8
Combined	13,095	6.39	31	12,286	4.99	21

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

18b 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 equity investments total £21,945,000 (2012: £15,706,000) 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 banks and the broker (for the gilts) used by the Company are large and reputable. Should the credit quality or the financial position of the banks or broker deteriorate significantly the Fund Manager, gilt and money market managers will move the cash holdings to another bank or broker.

18. Financial Instruments (continued)

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

	2013 £000				2012 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted loan investments	757	530	2,776	2,834	191	1,294	2,513	–

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

	2013 £000			2012 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest	40	–	–	64	–	–
Capital repayment	–	–	–	–	–	–

18c 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. In addition the Fund Manager prepares a quarterly and annual cash flow forecast to monitor the cash requirements of the business so as to ensure committed investments do not place unnecessary liquidity risk on the business. Note 16 sets out the investments committed to by the Board as 31 December 2013.

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 43.2 per cent (2012: 53.5 per cent) of the Company's assets are in the forms of liquid cash and cash equivalents. This falls to 28.5 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 (2012: 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.

19. 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 2013 was £30.46 million (2012: £27.15 million).

The Company operates a buy-back policy. The rate of discount to Net Asset Value at which the Company's shares are bought back has been set at no more than 10 per cent. During the year the Company purchased 524,961 ordinary shares at an average price of 57.72 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: 04084003

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 19 May 2014 at 12:00 noon for the following purposes:

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

ORDINARY RESOLUTIONS

- (1) That the Report of the Directors, the Report of the Auditors, the Strategic Report and the Financial Statements of the Company for the year ended 31 December 2013 be received.
- (2) That the final dividend of 2.5 pence per ordinary share for the year ended 31 December 2013 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 December 2013 be approved other than the part of such Report containing the Directors' Remuneration Policy.
- (4) That the Directors' Remuneration Policy contained in the Directors' Remuneration Report for the year ended 31 December 2013 be approved.
- (5) That Mr P C Waller be re-elected as a director.
- (6) That Mr R M Pettigrew be re-elected as a director.
- (7) That Mr R Last be re-elected as a director.
- (8) 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.
- (9) In addition to the existing authorities (to the extent unused) given to the directors at the General Meeting on 18 February 2014 pursuant to resolution 1 and 2, 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 £464,436 representing approximately 10 per cent of the share capital in issue as at 28 March 2014 [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. This revokes the authority granted at the Annual General Meeting on 20 May 2013 pursuant to resolutions 8 and 9, provided that this resolution shall not have the effect of revoking that authority with retrospective effect.

SPECIAL RESOLUTIONS

- (10) In addition to the existing authority (to the extent unused) given to the directors at the General Meeting of the Company on 18 February 2014 pursuant to resolution 3, 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 9 above, or by way of a sale of treasury shares, 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 £464,436 representing approximately 10 per cent of the issued share capital of the Company as at 28 March 2014 (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 9 above" were omitted. This revokes the authority granted at the Annual General Meeting on 20 May 2013 pursuant to resolutions 8 and 9, provided that such resolution shall not have retrospective effect.

(11) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence in the capital of the Company provided that:

- (1) the maximum aggregate number of ordinary shares that may be purchased is 6,961,890, being 14.99 per cent of the issued ordinary shares as at 28 March 2014;
- (2) the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
- (3) the minimum price (excluding expenses) which may be paid for an ordinary share is its nominal value;
- (4) this authority shall take effect from 19 May 2014 and shall expire at the conclusion of the Company's Annual General Meeting in 2015 or on 19 May 2016, whichever is the later; and
- (5) the Company may make a contract or contracts to purchase ordinary shares under this authority before the expiry of the authority, which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

KHM Secretarial Services Limited

Secretary

28 March 2014

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 together 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent 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 Asset Services 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 6pm on 17 May 2014 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 6pm on 17 May 2014 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 2014, the Company's issued share capital comprised 48,221,285 ordinary shares of 10 pence each with a further 1,777,722 shares held in treasury. Those treasury shares represented 3.69 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share (excluding treasury shares) 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 2014 was 46,443,563. 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 ("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 19 May 2014 at 12.00 noon

I/We (full name in BLOCK capitals) _____
of (address) _____ 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
19 May 2014 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 approve the Directors' Remuneration Policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Mr P C Waller	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect as a director Mr R M Pettigrew	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-appoint Grant Thornton UK LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the directors to allot shares (other than pursuant to the dividend re-investment scheme or the current joint offer for subscription)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL RESOLUTIONS			
10. To waive pre-emption rights in respect of the allotment of shares under resolution 9	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorise the Company to make purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature _____ Dated _____ 2014

Please refer to notes overleaf.

Please complete, sign and date, 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 19 May 2014 at 12.00 noon

NOTES

1. The Notice of the Annual General Meeting is set out on pages 70 to 72 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 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent 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 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.
7. 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.
8. 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.
9. 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 Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent 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 Asset Services 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.
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

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Registrars

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