

HARGREAVEHALE AIM VCT 2 plc

## Annual Report and Accounts

Year ended 28 February 2011

# CONTENTS

	Page
Financial Highlights and Investment Policy	3
Chairman's Statement	4
Board of Directors	6
Manager's Report	7
Investment Portfolio Summary	8
Top Ten Investments	10
Directors' Report	13
Directors' Remuneration Report	16
Corporate Governance	18
Statement of Directors' Responsibilities	21
Independent Auditors' Report	22
Income Statement	24
Balance Sheet	25
Cash Flow Statement	26
Reconciliation of Movement in Shareholders' Funds	26
Notes to the Financial Statements	28
Glossary of Terms	38
Company Information	39
Notice of AGM	40

## **Investment Objective**

The objective of the VCT is to achieve long term capital growth and to maximise tax free distributions to shareholders by investing in a diversified portfolio of small capitalised UK Companies primarily traded on AIM. At least 70% of the Company's funds must be invested in qualifying holdings within three years of raising the funds. The balance of the Company's funds will be invested in liquid assets (such as gilts, other fixed interest and bank deposits) and non-qualifying equity investments on an opportunistic basis to boost the fund's performance. The Company is managed as a Venture Capital Trust in order that shareholders in the Company may benefit from the tax relief available.

## **Shareholder Communication**

The Company's daily share price can be found on various financial websites under the TIDM code "HHVT" or on our dedicated website at [www.hargreave-hale.co.uk/VCT/aimvct2/default.htm](http://www.hargreave-hale.co.uk/VCT/aimvct2/default.htm).

# FINANCIAL HIGHLIGHTS AND INVESTMENT POLICY

<b>Ordinary Shares (as at 28 February):</b>	<b>2011</b>	<b>2010</b>
Net asset value per share	107.92p	102.43p
Cumulative distributions paid per share since launch	16.00p	12.00p
Total return per share	123.92p	114.43p
Discount to Net Asset Value (based on mid-market price at balance sheet date)	8.7%	4.3%
Annual Returns per share:		
Revenue return	(3.57)p	(1.79)p
Capital return	12.84p	16.49p
Combined Return	9.27p	14.70p
Dividends per share:		
Interim paid	2.0p	3.0p
Final proposed	3.0p	2.0p
Total dividend for year	5.0p	5.0p
Performance Benchmark:		
Total Return	130.4%	120.5%
FTSE AIM All-share Index (results rebased to 100 at 6 April 2007)	80.3%	57.7%

The Glossary of Terms can be found on page 38 of the report.

## Investment Policy

### a) Investment Objectives

The Companies' objectives are:

- to invest in a diversified portfolio of small UK based companies on a high risk, medium term capital growth basis, primarily being companies which are traded on AIM and which have the opportunity for significant value appreciation;
- to invest in smaller companies which may not be readily accessible to private individuals and which also tend to be more risky;
- to maximise distributions to shareholders from capital gains and income generated from the Companies' funds; and
- targeted investment in equities which are non-qualifying investments on an opportunistic basis to boost the performance of the Companies' funds.

### b) Asset Allocation

In order to achieve these objectives, "Qualifying Investments" (being investments which comprise qualifying holdings for a venture capital trust as defined in Chapter 4 Part 6 of the Income Tax Act 2007) will be made in AIM companies, but the Investment Manager will also consider PLUS traded companies and private companies that meet the investment criteria summarised below. The Investment Manager will follow a stock specific, rather than sector specific, investment approach. Individual Qualifying Investments are likely to range from £100,000 to £1 million. Investments in AIM traded Qualifying Investments will be in new shares issued by the investee company at the time of its flotation or in new shares issued by existing AIM companies (with a preference for secondary issues of existing AIM companies as they are likely to have an established track record and these issues are often priced at an attractive discount to market price).

Initially, whilst suitable Qualifying Investments are identified the net proceeds of any share offer will be invested in gilts, other fixed interest securities and bank deposits that are readily realisable and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost the performance of the Companies' funds. Such investments will be realised as suitable Qualifying Investments are identified and made. Whilst under VCT legislation the Companies must have 70 per cent. of its funds invested in Qualifying Investments within 3 years, it is intended to invest up to 80 per cent. Accordingly, the Companies' maximum exposure to such investments will be 80 per cent. The remaining funds will be retained in "Non-Qualifying Investments" (being investments made by the Companies which do not qualify as Qualifying Investments), such as gilts, other fixed interest securities and bank deposits and targeted investment in equities which are Non-Qualifying Investments on an opportunistic basis to boost the performance of the Companies' funds in order to allow for follow on investments, to fund the annual running costs of the Companies and to reduce the risk of the overall portfolio of each Company. The Investment Manager will be flexible in its approach, adapting the position of the Companies' funds to reflect market conditions.

# CHAIRMAN'S STATEMENT

## Introduction

I am pleased to report that your VCT made good progress during the financial year. At 28 February 2011 the NAV was 107.92 pence which after adjusting for the dividends paid gives a total return since inception of 123.92 pence. The gain per ordinary share for the year was 9.27 pence per share (comprising revenue loss of 3.57 pence and capital gains of 12.84 pence).

## Investments

The Investment Manager, Hargreave Hale Limited, invested a further £0.35 million in 3 qualifying companies during the year and 1 company went into administration realising a net loss of £0.1 million. The Fair Value of qualifying investments at 28 February 2011 was £3.3 million invested in 20 AIM companies and 1 unquoted company Mexican Grill Limited, the balance was held in non-qualifying AIM stocks and 1 unquoted company TMO Renewables Limited. A fuller report on the portfolio is given in the Investment Manager's Report on page 7.

## Dividend

An interim dividend of 2 pence was paid on 29 October 2010 (2010 – 3 pence).

A final dividend of 3 pence is proposed (2010 – 2 pence) which, subject to shareholder approval at the AGM will be paid on 27 July 2011, to ordinary shareholders on the register on 24 June 2011.

## Buybacks

We were pleased that we were able to maintain our policy of offering our shareholders an efficient exit route through the buyback scheme. In total, 28,240 Shares were purchased during the year at an average price of 89.4 pence per share.

## Arrangements with Keydata Investment Services (KIS)/Change in Hargreave Hale's Investment Management Agreement

As was reported previously, KIS went into administration on 8<sup>th</sup> June 2009. It was therefore necessary to make changes to the Investment Management Agreement.

The Investment Manager's remuneration was agreed at the time of the launch of the Company. On 15 December 2010 the Company entered into a deed of variation to increase the annual management fee payable to the Investment Manager from 0.9% to 1.3% per annum, starting from 1 October 2010 and coinciding with the termination of obligations with KIS on 29 September 2010. The initial appointment was for a period of three years and the appointment may be terminated by either party on giving one year's notice. The effect of the changes on the amount of fees paid by the fund will be nil when the fee cap of 3.5% is in force. If the cap is not in force due to an increased size of the fund, the new arrangements will result in lower payments than would have been the case under the previous agreement.

## Joint Offer for Subscription of Ordinary Shares

The joint offer launched on 20 March 2010 resulted in funds being received in the year to 28 February 2011 of £0.94 million and 0.86 million shares in respect of Hargreave Hale AIM VCT 2 plc.

## New Joint Offer for Subscription of Ordinary Shares

On the 9 March 2011 a new joint offer for subscription of Ordinary Shares was opened to raise approximately £2.65 million, in aggregate, in New Ordinary Shares for Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc. To date the Offer has resulted in funds being received of £0.45 million and 0.42 million shares have been issued in respect of Hargreave Hale AIM VCT 2 plc. The offer will close on the earlier of 29 July 2011 or the date on which the maximum is reached.

## VCT Status

To maintain its VCT qualifying status we must invest at least 70% of the net funds raised in any one accounting period in qualifying investments within three years. At the year end we have achieved 74.95% and have satisfied all the relevant tests.

**Board Changes**

As a result of new UKLA regulations on Board independence which came into effect on 28 September 2010 certain changes have been made to the Board. At that date Sir Aubrey Brocklebank resigned as Chairman and non executive director of the company and I was appointed the new Chairman. I would like to thank Aubrey for all his help and sagacity since the inception of the fund. In addition I was pleased to welcome Philip Cammerman as a new non executive director. Philip, whose full CV is shown on page 6 brings with him a wealth of relevant experience.

**Outlook**

The economy in general made a steady recovery in 2010, but there is much debate as to how well this can be sustained in 2011. There are significant headwinds with consumer confidence weak following the VAT rise in January 2011 and the anticipated effects of public spending cuts being introduced from April 2011. Nonetheless most respected authorities including the IMF are supportive of the economic strategy embarked upon by the Coalition and prospects for some businesses notably those focussing on international markets for their growth are encouraging.

The Chancellor in his recent Budget produced some positive support for the VCT industry. Subject to agreement with the EU authorities the rules concerning qualifying investments are expected to be eased significantly for the 2012/2013 tax year. The new rules allowing for investment in much larger and more stable businesses should, over time, create more investment opportunities and be beneficial to our investment performance.

**David Hurst-Brown**  
**Chairman**

Date: 13 June 2011

# BOARD OF DIRECTORS

## **David Hurst-Brown FSI (aged 62)**

David worked for over 25 years in the investment banking industry starting as an investment analyst with Rowe and Pitman and becoming a partner of the firm in 1985. Following takeovers by SG Warburg and Swiss Bank Corporation and the subsequent merger with Union Bank of Switzerland, David ultimately was an executive director in the corporate finance division of UBS Warburg. In this capacity, amongst his various duties, he was responsible for establishing a smaller companies business unit. He was a consultant to UBS from 1999 to 2002 and at the same time was an adviser to techMark, the London Stock Exchange's market for technology companies. David is presently a non executive director of Imagination Technologies Group Plc, Anite Plc and FFastfill Plc.

## **Giles Hargreave (aged 62)**

Giles is the Chief Executive of Hargreave Hale Limited. After leaving Cambridge in 1969 Giles began his career as a trainee analyst with James Capel before moving to Management Agency and Music Plc as a private fund manager in 1974. In 1986 he founded Hargreave Investment Management, which was merged with Hargreave Hale & Co in 1988, Giles took over as the fund manager of a Special Situations Fund. He also manages a UK Micro Cap Fund and a UK Leading Companies Fund. Giles heads up Hargreave Hale's investment committee and chairs the weekly meetings in which the team reviews existing and potential investments.

## **Philip Cammerman (aged 69)**

Philip has over 20 years experience in engineering and high-tech industries and has worked in both the UK and USA. He has spent the last 23 years in the venture capital industry, playing a major part in the development of the YFM Group into the most active investor in UK SME's. He retired from all YFM Group business in April 2008 following their disposal to GLE Capital. Philip has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. In addition to his directorship of Hargreave Hale AIM VCT 2 plc, Philip is a non executive director of Pressure Technologies plc and British Smaller Companies VCT plc.

# INVESTMENT MANAGER'S REPORT

## Market Commentary

The stock market regained a strong footing in the year with FTSE All-Share rising 13.5% in the 12 months to 28 February 2011 and FTSE AIM All-Share seeing an impressive 39.3% surge in the same period. European sovereign debt problems and inflation fears weighed on markets periodically but failed to reverse the post-recession bull-run. Developed nations continued to limp through the painful recovery process and the developing world also showed signs of slowing as central banks and governing authorities introduced further measures to reign in resurgent growth. More recently, Middle East and North Africa unrest has emerged as a more serious strategic issue for markets to contend with as higher levels of geopolitical risk provide further impetus to the price of oil.

## Investment Report

In the financial year, the NAV rose from 102.43 pence to 107.92 pence. Total dividends of 4 pence were also distributed in the year, taking the gain for the period to 9.49 pence per share (+9.3%). Total Returns since launch increased in the year from 114.43 pence to 123.92 pence.

We made three qualifying investments in the financial year, adding Corac (direct drive turbo machinery) and EKF (life sciences) to the qualifying portfolio, whilst also increasing our investment in Omega Diagnostics (medical diagnostics). We sold Lipoxen and lost Mount Engineering to a cash takeover. Alterian became non-qualifying. We ended with 21 qualifying investments. There were some other changes, too: Enfis acquired Photonstar through a reverse takeover and Marwyn Capital 2 acquired Fulcrum Utility Services, also via reverse takeover.

The second half of the year was one of the better periods for the portfolio of qualifying investment with a sharp rebound from a soft first half. Net realised and unrealised gains totalled £0.475m, equivalent to 8.34 pence per share, with 10 of the 21 investments increasing in value. Hardide was by far the largest contributor to NAV appreciation (4.0 pence per share) following a gain of 100% in the year. We took the opportunity to lock in some gains and reduced our position by about 25%. Intercede was another significant driver of performance as strong trading and positive updates resulted in a 95% increase in the share price, equivalent to 1.9 pence per share. Since the acquisition of EKF (formerly IBL) in June 2010 the share price has increased by 63%, equivalent to 1.7 pence per share. Another material gain came from Animalcare, whose shares re-rated following the disposal of their agricultural businesses in October 2010. The 43% increase in the share price added 1.5 pence per share. Of less tangible value, although still noteworthy, was the 142% increase in the share price of Plastics Capital. Having suffered more than most in the downturn, the company has enjoyed a strong cyclical recovery in trading.

We have seen useful profits from non qualifying investments disposed of during the year in Cape (0.8 pence per share), Cove (0.6 pence per share), City of London (0.6 pence per share) and the more noticeable unrealised gains for the year were in Craneware (0.6 pence per share), Cove (0.6 pence per share) and Richoux (0.4 pence per share). Net realised and unrealised gains from the non-qualifying equity strategy totalled £0.163m or 2.9 pence per share.

## Portfolio Structure

We have continued with our strategy of non-qualifying equity investments. The weighting fell from 17.2% to 15.1% as a result of growth in the qualifying portfolio, although the actual amount invested increased from £0.79m to £0.94m. Within the period, the weighting to non-qualifying went as high as 20% in late 2010 before falling in the New Year as we reduced the exposure in anticipation of weaker equity markets.

Our cash position increased from £0.14m to £1.12m, from 3.0% to 18.1%, largely as a result of subscription funds from the joint offer being received in the year. Our fixed income investments increased from £0.83m to £0.86m from the acquisition of shares in Nationwide 7.971% 2049, Scottish Amicable 8.5% 2049 and the disposal of 2.5% 2016 Treasury Shares, a reduction from 18.0% to 13.8% of net assets.

## Investment Test

The fund finished the period at 75% invested, as measured by HMRC. We have made five subsequent qualifying investments in the current financial year: Datum International (content management and workflow software), Futura Medical (sexual healthcare pharmaceuticals), IS E&P/NV (oil and gas exploration), Microsaic (mass spectrometry) and Indeed (online property conveyancing service).

## Hargreave Hale Limited

Date: 13 June 2011

# INVESTMENT PORTFOLIO SUMMARY

## Ordinary Share Fund

As at 28 February 2011

Qualifying investments	Book Cost £000	Valuation £000	Valuation %
Hardide plc	112	300	5.91
Animalcare Group plc	100	286	5.63
Mexican Grill Limited (A Preference shares) (unquoted)	277	277	5.45
Lidco Group plc	146	269	5.30
EKF Diagnostics Holdings plc	150	245	4.82
Intercede Group plc	96	227	4.47
Advanced Computer Software Group plc	100	215	4.23
Electric Word plc	185	204	4.02
Omega Diagnostics Group plc	200	187	3.68
Fulcrum Utility Services Limited	100	165	3.25
Renuron Group plc	75	145	2.86
Tristel plc	100	141	2.78
Marwyn Capital II Ltd	100	130	2.56
Lombard Risk Management plc	104	111	2.19
Corac Group plc	100	103	2.03
Plastics Capital plc	100	80	1.58
Synchronica plc	100	58	1.14
Savile Group plc	151	42	0.83
Mexican Grill Limited (Ordinary shares) (unquoted)	31	31	0.61
Photonstar Led Group plc	97	22	0.43
Optare plc	116	15	0.30
Image Scan Holdings plc	93	9	0.18
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Total qualifying investments	2,633	3,262	64.25



## INVESTMENT PORTFOLIO SUMMARY (continued)

	Book Cost	Valuation	Valuation
<b>Non-Qualifying investments</b>			
UK Treasury 2.25% 2014	294	303	5.97
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Total – UK gilts	294	303	5.97
Nationwide 3.75% 2011	255	255	5.02
Scot Amicable 8.5% 2049	154	151	2.97
Nationwide 7.971% 2049	145	149	2.93
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Total – UK corporate bonds	554	555	10.92
Craneware plc	83	116	2.28
IS Pharma plc	100	109	2.15
Egdon Resources plc	79	92	1.81
Anglo Pacific Group plc	67	66	1.30
Instem Life Science Systems plc	52	65	1.28
TMO Renewables Limited (unquoted)	50	50	0.98
Cohort plc	56	49	0.96
Cove Energy plc	16	47	0.92
Communisys plc	52	46	0.91
Skill Ports & Logistics Limited	50	44	0.87
Acta S.P.A	41	41	0.81
Richoux Group plc	43	38	0.75
Maxima Holdings plc	36	34	0.67
OPG Power Ventures plc	22	27	0.53
Agriferma Brazil	26	25	0.49
Westmount Energy Limited	11	24	0.47
Alterian plc	25	21	0.41
Pressure Technologies plc	19	21	0.41
Optare plc	12	15	0.30
DDD Group plc	13	13	0.26
Fulcrum Utility Services Limited	5	5	0.10
Marwyn Value Inv B	5	4	0.08
Animalcare Group plc	1	1	0.02
Corac Group plc	1	1	0.02
Electric Word plc	1	1	0.02
Intercede Group plc	1	1	0.02
Marwyn Capital II Limited	1	1	0.02
Omega Diagnostics Group plc	2	1	0.02
EKF Diagnostics Holdings plc	0	0	0.00
Photonstar Led Group plc	2	0	0.00
Hardide plc	0	0	0.00
	-----	-----	-----
Total – non-qualifying equities	872	958	18.86
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Total – non-qualifying investments	1,720	1,816	35.75
	-----	-----	-----
<b>Total investments</b>	<b>4,353</b>	<b>5,078</b>	<b>100.00</b>
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# TOP TEN INVESTMENTS

As at 28 February 2011

Each of the AIM investments is valued by reference to the bid price.

<b>Hardide plc</b>			<b>0.8p</b>
Investment date	June 2009	Audited results for year ended	September 2010
Equity held	4.5%	Turnover (£'000)	1,735
Purchase Price	0.3p	Profit before tax (£'000)	(507)
Cost (£'000)	112	Net assets (£'000)	485
Valuation (£'000)	300		

Hardide Plc provides high-performance surface coatings to the oil and gas, valve, pump, aerospace and general engineering industries primarily in the UK and the US. It develops tungsten carbide-based coating, which offers a combination of ultra-hardness, toughness, low friction, and chemical resistance when applied to components made from steel, alloy, and other materials. The company's products are used in a range of applications, including cylinders, nozzles, balls, pins and bushes, turbines, flow diverters, valve components and drilling tools. Hardide is headquartered in Bicester, UK.

<b>Mexican Grill Ltd</b>			<b>2053p</b>
Investment date	October 2009	Preliminary results for year ended	September 2010
Equity held	7.38%	Turnover (£'000)	2,623
Purchase Price	2053p	Profit before tax (£'000)	(41)
Cost (£'000)	308	Cash balance (£'000)	736
Valuation (£'000)	308		

Mexican Grill is a private company that operates five fast casual California-Mexican restaurants that provide fresh, made to order cuisine for eat in or take-away. The five sites are in London at Islington, Bankside (near Tate Modern), Market Place (near Oxford Circus), Canary Wharf and Leadenhall making it amongst the largest chains within its niche. Each of the sites is profitable, most notably Canary Wharf which is generating an annual return on capital in excess of 50%. The company is profitable as a whole and has a strong Balance Sheet.

<b>Animalcare Group plc</b>			<b>157p</b>
Investment date	December 2007	Unaudited results for 6 months to	December 2010
Equity held	0.90%	Turnover (£'000)	5,986
Purchase Price	56p	Profit before tax (£'000)	1,441
Cost (£'000)	101	Net Assets (£'000)	14,587
Valuation (£'000)	287		

Having recently sold its interests in its agricultural division, Animalcare plc now operates principally in the two key areas of licensed veterinary medicines and companion animal identification.

<b>Lidco Group plc</b>			<b>18.5p</b>
Investment date	May 2009	Audited results for year ended	January 2011
Equity held	0.84%	Turnover (£'000)	6,237
Purchase Price	10p	Profit before tax (£'000)	(490)
Cost (£'000)	146	Net assets (£'000)	4,580
Valuation (£'000)	269		

LiDCO is a supplier of minimally invasive hemodynamic monitoring equipment and disposables to hospitals. These products are used primarily for the management of hospital patients requiring critical care or at major cardiovascular risk. LiDCO's computer-based technology significantly reduces the complications (particularly infections) and costs associated with major surgery. The technology was invented in the Department of Applied Physiology based at St Thomas' Hospital, London. LiDCO is based in the UK.

<b>EKF Diagnostics Holdings plc</b>			<b>24.5p</b>
Investment date	June 2010	Unaudited results for year to	December 2010
Equity held	0.6%	Turnover (£'000)	6,483
Purchase Price	15p	Profit before tax (£'000)	(2,089)
Cost (£'000)	150	Net assets (£'000)	23,529
Valuation (£'000)	245		

The EKF Group is a leading diagnostic business with its head office in the UK and operations in Germany, Poland and Russia. The business is focused on the development, production and worldwide distribution of blood analysers. Established in manifold applications, the products are sold into hospitals, universities, laboratories, blood donor centres, for industrial use and point of care testing. International Brand Licensing acquired EKF Diagnostics in August 2010 by reverse takeover. The new management team, which has strong credentials in the life sciences arena, intends to develop a meaningful life sciences business through a combination of organic and acquisitive growth. EKF has completed its acquisition of Quotient Diagnostics in October 2010 and Argutus Medical Limited in December 2010. Quotient has subsequently obtained FDA approval for Quo-Test in China. In May 2011, EKF raised £13m through a placing to fund the acquisition of Stanbio and to meet the anticipate rise in working capital. Stanbio is an established US based medical diagnostic devices distribution and manufacturing business.

<b>Intercede Group plc</b>			<b>78p</b>
Investment date	May 2007	Unaudited results for 12 months to	March 2011
Equity held	0.6%	Turnover (£m)	6,872
Purchase Price	33p	Profit before tax (£m)	2,005
Cost (£'000)	97	Net Assets (£m)	5,191
Valuation (£'000)	228		

Intercede is an international developer and supplier of software for identity and credential management. This software is branded as the Intercede MyID® Identity and Credential Management System. MyID is a commercial-off-the-shelf product that Intercede has licensed to governments, public authorities and companies around the world to improve the level of identity assurance of their citizens and employees.

<b>Advanced Computer Software Group plc</b>			<b>36.5p</b>
Investment date	July 2008	Unaudited results for 6 months to	August 2010
Equity held	0.17%	Turnover (£'000)	47,314
Av. Purchase Price	17p	Profit before tax (£'000)	1,917
Cost (£'000)	100	Net assets (£'000)	81,110
Valuation (£'000)	215		

Through its three main divisions (Business Solutions, Health & Care and Managed Services), Advanced Computer Software Group provides a range of software and IT services that enable public, private and third sector organisations to retain control, improve visibility and gain efficiencies through streamlined processes.

<b>Electric Word plc</b>			<b>4p</b>
Investment date	August 2009	Preliminary results for year ended	November 2010
Equity held	1.72%	Turnover (£'000)	14,607
Purchase Price	3.63p	Profit before tax (£'000)	764
Cost (£'000)	186	Net assets (£'000)	3,048
Valuation (£'000)	205		

Electric Word is a specialist information business that serves the sport and education sectors. It produces a range of products and services, which include newsletters, magazines, websites, events, books, special reports and bespoke research.

<b>Omega Diagnostics Group plc</b>			<b>14p</b>
Investment date	September 2009	Unaudited results for 6 months to	September 2010
Equity held	1.57%	Turnover (£'000)	3,304
Purchase Price	15p	Profit before tax (£'000)	71
Cost (£'000)	202	Net assets (£'000)	5,670
Valuation (£'000)	188		

Omega Diagnostics sells a wide range of immunoassay-based products in the in-vitro diagnostics market, through a distribution network in over 100 countries. The company operates in niche markets, supplying tests based on agglutination, enzyme immunoassay, fluorescence, rapid and microarray technologies. Omega Diagnostics products specialise in the diagnosis of infectious, food intolerance and autoimmune tests for diseases such as anaemia, connective tissue disease and renal disease. All products are designed for use in Clinical Laboratories and Rapid Tests are designed for use at the point of care.

<b>Fulcrum Utility Services plc</b>			<b>16.5p</b>
Investment date	July 2010	Unaudited results for 9 months to	September 2010
Equity held	0.67%	Turnover (£'000)	9,838
Purchase Price	10p	Profit before tax (£'000)	(4,098)
Cost (£'000)	105	Net assets (£'000)	12,322
Valuation (£'000)	170		

Fulcrum (formerly Marwyn Capital I Limited) is an energy solutions company operating across mainland UK. Combining customer focus with extensive knowledge and experience in the utility industry, the company has a portfolio of products and services that provide an end to end multi utility and environmental service for all customer categories. As a gas transporter, Fulcrum designs, constructs, owns and operates distribution systems.

### **Co-Investment**

As at 28 February 2011, other funds managed by Hargreave Hale Limited were also invested in 28 of the investments – Acta, Advanced Computer Software, Anglo Pacific, Animalcare, Alterian, Cohort, Communisis, Corac, Cove, Craneware, DDD, Egdon Resources, EKF, Electric Word, Instem, IS Pharma, Maxima, Omega Diagnostic, OPG Power, Optare, Photonstar, Plastics Cap, Pressure Tech, Reneuron, Richoux, Savile, Skill P&L and Westmount.

# DIRECTORS' REPORT

## For the year end 28 February 2011

The Directors present their report together with the audited financial statements of the Company for the year from 1 March 2010 to 28 February 2011.

The Company was incorporated and registered in England and Wales on 20 September 2006 under the Companies Act 1985, registered number 5941261.

### Principal Activity and Status

The Company has been approved by HMRC under section 259 of the Income Taxes Act 2007, as a Venture Capital Trust. The shares of the Company were first admitted to the Official List of the UK Listing Authority and trading on the London Stock Exchange on 6 April 2007.

On 20 September 2007, the Company revoked its investment company status to facilitate the payment of dividends out of capital profits.

The Company's principal activity is to invest in a diversified portfolio of qualifying small capitalised UK based companies, primarily trading on AIM, with a view to maximise tax free dividend distributions to shareholders.

The Directors have managed and continue to manage the Company's affairs in such a manner as to comply with Section 259 of the Income Taxes Act 2007.

### Business Review

A review of the Company's business during the year and consideration of its future development and prospects are contained in the Chairman's Statement and Investment Manager's Report. The financial position of the Company at 28 February 2011 was strong with no debt or gearing.

### Key Performance Indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The key performance indicators (KPIs) are established industry measures and are as follows:

- Net asset value
- Total return
- Discount to net asset value
- Earnings and Dividend per share

In addition to the above, the Board considers peer group comparative performance. Performance is also measured against the Company's closest benchmark, The FTSE AIM All-share Index. The performance measures for the year are included in the Financial Highlights on page 3.

### Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities and include market price, interest rate and liquidity. An explanation of these risks and how they are managed is contained in note 17 to the accounts. Additional risks faced by the Company, together with the mitigation approach, are as follows:

- i. Discount volatility – venture capital trust shares tend to trade at discounts to their underlying net assets values, which can fluctuate considerably. To minimise the impact of such fluctuations, the Company set up a share buyback policy during the year where the Company purchases shares for cancellation.
- ii. Regulatory risk – the Company operates in a complex regulatory environment and faces a number of related risks. A breach of section 259 of the Income Taxes Act 2007 could result in the Company being subject to capital gains tax on the sale of its investments. The Board receives a half yearly compliance report prepared by PricewaterhouseCoopers LLP to monitor compliance with regulations.

### Revenue and Dividends

The revenue loss after tax for the year amounted to £196,000 (2010 – £82,000 loss). An interim ordinary dividend of 2 pence per Ordinary share was paid on 29 October 2010 (2010 – 3 pence per share). The final dividend of 2 pence per share for the year ended 28 February 2010 was paid on 2 July 2010.

### Share Valuation

On 28 February 2011, the bid-market price and the net asset value per ordinary share were 98.50 pence and 107.92 pence respectively.

### Management

Hargreave Hale Limited manages the Company's investments. The principal terms of the Company's agreement with Hargreave Hale Limited are set out in Note 3 to the Financial Statements.

The Investment Manager's remuneration was agreed at the time of the launch of the Company. On 15 December the Company entered into a deed of variation to increase the annual management fee payable to the Investment Manager from 0.9% to 1.3% per annum, starting from 1 October 2010 and coinciding with the termination of obligations with KIS on 29 September 2010. In exchange Hargreave Hale Limited has agreed to provide an indemnity to cap the annual running costs of the Company from 1 October 2010 at 3.5% per annum (1.46% for the period from 1 October 2010 to 28 February 2011) of the Net Asset Value (such costs excluding VAT, any Performance Incentive Fee and any trail commissions the payment of which is the responsibility of the Company) and cover any excess.

The initial appointment of the Investment Manager was for a period of three years and the appointment may be terminated by either party on giving one year's notice. The Directors review the Investment Manager's performance at each Board Meeting through review of the Investment Report.

Hargreave Hale Limited is to provide to the Company, administration services, custody services, company secretarial services and directorship of Giles Hargreave.

### VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP as advisors on, inter alia, compliance with legislative requirements. The Directors monitor the Company's VCT status through regular reports from PricewaterhouseCoopers LLP.

### Substantial Holdings in the Company

At 28 February 2011, there were 4 holdings of 3% and over of the Company's ordinary share capital. These holdings related to Dr Angelina Lamoury with 3.20%, Mrs Patricia Davenport with 3.56%, Dr Alasdair Nairn with 4.19% and Frank Nominees Limited with 4.63% as at 28 February 2011.

### Directors

The present directors are listed below.

### Directors' Interests

The beneficial interests of Directors of the Company in the share capital are shown below:

	Ordinary Shares	
	2010	2009
David Hurst-Brown	26,250	26,250
Giles Hargreave	143,085	51,500
Philip Cammerman (appointed 28 September 2010)	-	-
Sir Aubrey Brocklebank Bt (resigned 28 September 2010)	5,000	5,000

There have been no changes to the beneficial interests of Directors between 28 February 2011 and the date of this report.

### Share Buybacks

During the year, the Company repurchased 28,240 ordinary shares (nominal value £282) at a cost of £25,376. The shares repurchased represent 0.6% of ordinary shares in issue on 1 March 2010. All shares repurchased were cancelled.

The buyback scheme as detailed in the prospectus is offered to shareholders as a means to provide an opportunity for shareholders to sell their shares back to the company through the buyback scheme if an exit route is desired.

**Shares Issued**

During the year, the Company issued 1,235,185 1 pence ordinary shares (nominal value £12,352) in a joint offer for subscription which resulted in funds being received of £1,340,000 from subscriptions of which 5% (£67,000) was payable to Hargreave Hale Limited to cover the cost of additional shares allotted from commission re-invested of £14,506, initial commission of £25,155 and trail commission of £2,081, resulting in fees payable to Hargreave Hale Limited of £25,258.

The joint offer for subscription of ordinary shares opened on 20 March 2010 and closed on 8 March 2011.

**Post Balance Sheet Events**

Post Balance Sheet Events are disclosed in Note 19 on page 37 of the accounts.

**Directors' and Officers' Liability Insurance**

All directors and officers benefit from qualifying third party indemnity insurance cover.

**Disclosable Interests**

No Director is under contract of service with the Company and, other than as disclosed in Note 16, no contract existed during or at the end of the year in which any Director was materially interested and which was significant in relation to the Company's business.

**Financial Instruments**

The Company's financial instruments and principal risks are disclosed in Note 17 to the accounts.

**Supplier Payment Policy**

It is the Company's policy to obtain the best terms for all business and to abide by those agreed terms. It is the Company's policy to settle all investment transactions according to settlement periods operating for the relevant markets. The majority of transactions undertaken for services provided and goods received are payable on standard terms. The supplier payments due are usually settled within two weeks given the time needed to authorise the payments and attain the dual signatories. The average time recorded to pay creditors in the year was 13.8 days (2010 – 28 days, 16.6 days from August 2009 when Hargreave Hale Limited took over the administration).

**Charitable and Political Donations**

The Company made no charitable or political donations in the year (2010 - nil).

**Auditors**

A resolution proposing the reappointment of BDO LLP as auditors to the Company and authorising the Directors to determine their remuneration will be put at the forthcoming AGM.

The Directors who held office at the date of approval of this Director's Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

**Annual General Meeting**

The Notice of AGM to be held on 22 July 2011 is set out on page 40.

At the AGM there is one non-routine item of business:

Resolution 8, if passed, will renew the Directors' authority to purchase (for cancellation) up to 14.99% of the issued ordinary share capital as at the date of this report.

By order of the Board

**STUART BROOKES**  
**Company Secretary**

Registered office:  
Hargreave Hale AIM VCT2 plc,  
19 Cavendish Square,  
London W1A 2AW

Date: 13 June 2011

# DIRECTORS' REMUNERATION REPORT

For the year ended 28 February 2011

The Board presents this Report which has been prepared in accordance with the requirements of The Companies Act 2006 and Statutory Instrument 2008/410. An ordinary resolution for the approval of this report will be put to the shareholders at the AGM.

Your Company's auditors are required to audit certain disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The auditors' opinion is included in their report on pages 22 and 23.

## Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a Company of this size and nature. Remuneration is part of the Board's responsibilities, to be addressed regularly.

The Board consists solely of non-executive Directors. All are considered independent with the exception of Mr Giles Hargreave who is Chief Executive of Hargreave Hale Limited and is not therefore independent.

## Policy on Directors' Remuneration

The Company has no employees, so the Board's policy is that the remuneration of directors should be fair and reasonable in relation to the time committed and responsibilities of the Directors and in line with the remuneration paid by other listed venture capital trusts and investment trusts. The Board aims to review Directors' remuneration from time to time. There have been no increases since the fund was established.

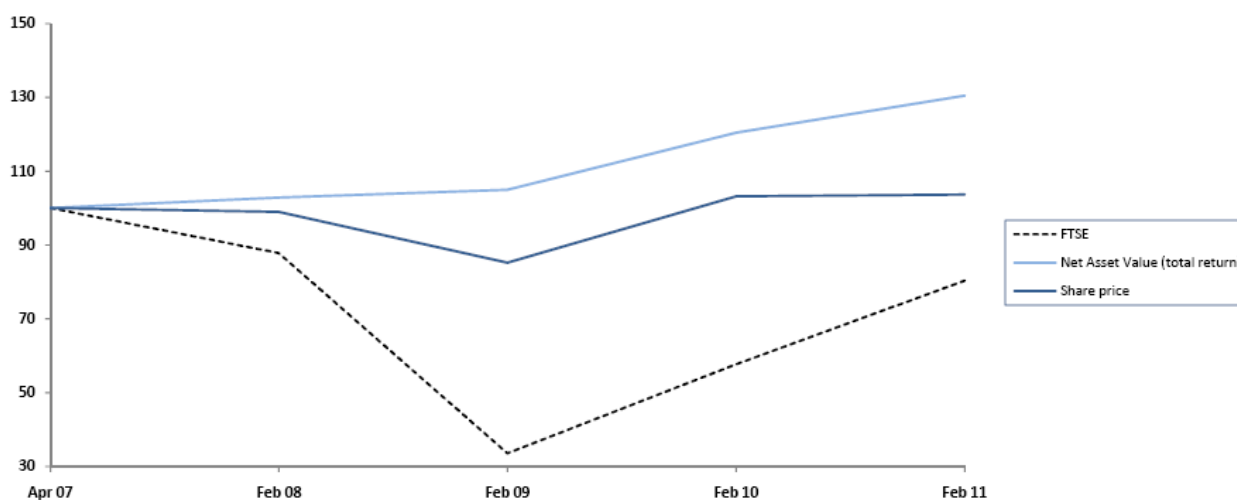
Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum permitted by the Company's Articles of Association is £200,000 per annum. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

## Directors' Service Contracts

It is the Board's policy that none of the Directors has a service contract. Each of the Directors has entered into an agreement with the Company when appointed. David Hurst-Brown was appointed on 8 December 2006, Giles Hargreave who was appointed on 12 August 2009 when an agreement was made with Hargreave Hale Limited to provide the directorship service and Philip Cammerman was appointed on 28 September 2010. The terms of appointment provide that a Director shall retire and be subject to re-election at the first annual general meeting after appointment and at least every three years thereafter. Either party can terminate the agreement by giving to the other at least 3 months notice in writing.

## Your Company's Performance

The Company was incorporated on 20 September 2006 and commenced trading on 6 April 2007. The performance chart below charts the Company's Ordinary share NAV (total return) and share price from Admission of shares to listing on 6 April 2007 to 28 February 2011 (rebased to 100 at 6 April 2007) compared to the total return of a notional investment in the FTSE AIM All-share Index over the same period. The graph has been plotted at intervals of 12 months. This index was chosen for comparison purposes as it represents a comparable broad equity market index for AIM quoted small companies (the target investment class for the VCT).





**Directors' Emoluments for the Year (audited)**

The Directors who served during the year received the following emoluments:

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
David Hurst-Brown (Chairman)	16,250	15,000
Giles Hargreave	15,000	8,750
Philip Cammerman (appointed 28 September 2010)	6,250	-
Sir Aubrey Brocklebank Bt (Chairman) * (resigned 28 September 2010)	15,000	18,000
Stewart Ford (resigned 16 June 2009)	-	8,135
	-----	-----
<b>Total</b>	<b>52,500</b>	<b>49,885</b>
	-----	-----

\*The emoluments paid to Sir Aubrey Brocklebank Bt include a payment of three months fees of £4,500 in lieu of notice.

The Directors fees have not increased in the year with the exception of the payment in lieu of notice to Sir Aubrey Brocklebank Bt.

**Approval**

The Directors' Remuneration Report on pages 16 and 17 was approved by the Board of Directors on 13 June 2011.

Signed on behalf of the Board of Directors

**David Hurst-Brown**  
Chairman

# CORPORATE GOVERNANCE

## Director's Statement of Compliance with the 2010 FRC Combined Code on Corporate Governance ("the Code").

### The Principles

The Board has put in place arrangements which it considers appropriate for a VCT to ensure proper corporate governance.

During the year under review, the Board considers that the Company has complied with the recommendations of the Code except as disclosed below.

The Board comprises three Directors, all of whom are non-executive and all of whom are considered independent of the Investment Manager with the exception of Mr Giles Hargreave. Mr Giles Hargreave is Chief Executive of Hargreave Hale Limited and is not therefore independent of the Investment Manager.

The Directors have a range of business, financial and asset management skills and experiences relevant to the direction and control of the Company. Brief biographical details of the members of the Board are shown on Page 6.

The Chairman is David Hurst-Brown, a non-executive Director, who has no conflicting relationships. Since all Directors are non-executive and day to day management responsibilities are sub-contracted to the Investment Manager and Administrator, the Company does not have a Chief Executive Officer, as the roles are already effectively separated.

The Administrator ensures the Directors have timely access to all relevant management, financial and regulatory information to enable informed decisions to be made. The Board meets on a regular basis at least four times each year and additional meetings are arranged as necessary. Regular contact is maintained between the Investment Manager and the Board outside of formal meetings.

Board meetings follow a formal agenda, which includes a review of investment portfolio with a report from the Investment Manager on the current investment position and outlook, strategic direction, performance against stock market indices and the Company's peer group, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance and industry and other issues.

Due to the size of the Board, the Board has not set up a separate nomination and remuneration committees (as required by Code B.2.1 and D2.1 respectively) on the grounds that the Board as a whole considers these matters. As all Directors are non-executives, the board has not appointed a senior independent non-executive director (Code A.4.1) as the Chairman performs the role.

### Board Responsibilities

The Directors have adopted a formal schedule of matters reserved for the Board that cannot be delegated to a committee or to any other party. These reserved matters include approval of annual and half yearly reports and accounts, circulars and other shareholder communications, appointment and removal of Board members and Officers of the Company, changes to the Company's objectives and accounting policies, and the use of gearing for investment purposes.

The Directors have delegated to the Investment Manager responsibility for the day to day investment management decisions of the Company. The provision of administration and custodian services has been delegated to Hargreave Hale Limited.

### Company Secretary

The Board has direct access to the Company Secretary who is responsible for ensuring that the Board procedures are followed. The Company Secretary is also responsible for ensuring the timely delivery of information and reports and that the statutory obligations of the Company are met.

### Nomination Responsibilities

All nomination responsibilities are carried out by the Board. These responsibilities include reviewing the size, structure and skills of the Board and considering any changes necessary or new appointments. No Director has a contract of employment with the Company.

The Articles of Association require that each Director retires and stands for election at the Company's first AGM and then retires at an AGM every three years after appointment or (as the case may be) last reappointment, and may offer himself for re-election. No Director serves a term of more than three years before re-election.

Philip Cammerman is required to stand for election at this year's AGM. The Chairman confirms that the performance of all Directors continues to be effective and demonstrates commitment to their respective roles.

The Articles of Association of the Company and the Directors' letter of appointment will be available at the AGM and can be inspected at the Registered Office of the Company.

#### **Directors' Induction**

On appointment to the Board Directors are fully briefed as to their responsibilities and are kept regularly informed of industry and regulatory developments.

The Board has formalised arrangements under which the Directors in the furtherance of their duties, may seek independent professional advice at the expense of the Company. The Company also maintains Directors and officers liability insurance to cover legal expenses.

#### **Directors' Remuneration**

The board as a whole reviews Directors' remuneration on a regular basis. Details of the Company's policy on Directors' remuneration and of payments to Directors are given in the Directors' Remuneration Report on pages 16 and 17.

#### **Accountability and Audit**

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 21. The Auditors' Report appears on pages 22 and 23.

#### **Performance Appraisal**

The Directors recognise the importance of the Code (Code A.6.1-A.6.3) in terms of evaluating the performance of the Board as a whole and the individual Directors. As the Directors of the Company are non-executive their role is to ensure that the company is managed by the Investment Manager and Administrator to the best of their ability and make changes to the management if they are not acting in the best interests of the shareholders. The Directors' role is to review the performance of the management and ensure this is the case. The Directors' performance is reviewed on an ongoing basis by the Board on attendance to Board meetings, input at the Board meetings and ability to continue in their role as a non-executive director of the Company. This is formalised in the retirement process as detailed in the Articles of Association where each director retires every 3 years and stands for re-election by the shareholders at the AGM.

During the year the Company introduced an Annual Board Evaluation Questionnaire for each Director to complete covering performance appraisal of the Board, the Chairman and Directors'. The questionnaires were completed during the year and on review the Board is satisfied with the results and finds that the Board, Chairman and Directors are suitably qualified to undertake their responsibilities and perform their duties in respect of managing the Company.

#### **Audit Committee**

Formation of an audit committee was approved at the Board Meeting on 8 February 2011. The Committee consists of two members appointed by the Board, these members are Philip Cammerman (Chairman) and David Hurst-Brown. The Terms of Reference for the Committee setting out roles and responsibilities (Code C.3.2) were approved at the Board Meeting on 8 February 2011. The responsibilities of the Committee are as follows:-

- To review, and challenge where necessary, the actions and judgements of management in relation to the company's financial statements, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the board, and before clearance by the auditors. Particular attention should be paid to:
  - Critical accounting policies and practices, and any changes in them;
  - The clarity of disclosures;
  - Compliance with accounting standards; and
  - Compliance with stock exchange and other legal requirements
- To review effectiveness of the systems for internal financial control;
- To monitor the integrity of the company's internal financial controls;
- To review the effectiveness of payment authorisation controls;
- To monitor the integrity of safe custody arrangements;
- To consider annually whether there is a need for an internal audit function where no such function exists;
- To oversee the company's relations with the external auditor;
- To consider, and make recommendations on the appointment, reappointment and removal of the external auditor;
- To assess the effectiveness and independence of the external auditors annually;
- To consider recommendations raised by the external auditors in their management letters; and
- To consider other topics, as defined by the board.

### Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls, which have been in place throughout the year. The controls are operating effectively and continue to be in place up to the date of this report.

The effectiveness of the Company's operations are reviewed annually by the Board and accords with the guidance set out in the Turnbull Report. In particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Company and the policies and procedures by which these risks are managed.

A detailed risk map has been prepared which identifies the significant risks faced by the Company and the key controls to manage these risks. This ensures that consideration is given regularly to the nature and extent of the risks facing the Company and that they are being actively monitored. Where changes in risk have been identified during the year they also provide a mechanism to assess whether further action is required to manage the risks identified.

Since Investment management, custody of assets and all administrative services are provided by a third party, the Company's system of internal control also includes the monitoring of services provided by the third party, including the operational controls maintained by them, to ensure they meet the Company's objectives.

Since appointment of Hargreave Hale Limited as Administrators the method of controlling company payments has changed. All Directors and the Company Secretary are authorised signatories, with cheques to be signed by two independent signatories. These being David Hurst-Brown, Philip Cammerman and either Giles Hargreave or Stuart Brookes to ensure payments are authorised by two independent persons as Giles and Stuart are not independent.

The control systems have been designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage, rather than eliminate, risk of failure to achieve business objectives.

### Internal Audit Function

The Company does not have an internal audit function. All of the Company's Management functions (investment management, custody and administration) are performed by Hargreave Hale Limited and are segregated by department and location. The internal controls of Hargreave Hale Limited are reviewed and approved by the Board. It is therefore felt that there is no need for the Company to have an internal audit function, however, this will be reviewed annually.

### Auditors' Non-Audit Service

During the year no fees were paid for non-audit services (2010 - £nil).

### Attendance at Board Meetings

All the Directors are considered to have a good attendance record at Board meetings of the Company. The following table sets out the number of formal Board meetings held during the year under review and the number of meetings attended by each Director.

	No of Board Meetings	
	Held	Attended
David Hurst-Brown (Chairman)	11	8
Giles Hargreave	11	10
Philip Cammerman (appointed 28 September 2010)	5	5
Sir Aubrey Brocklebank Bt (resigned 28 September 2010)	6	6

### Relations with Shareholders

Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with shareholders is through the interim and Annual Report and Accounts, which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by the weekly calculation of the net asset value of the Company's ordinary shares, which is published via the Stock Exchange and on our website at [www.hargreave-hale.co.uk/VCT/aimvct2/default.htm](http://www.hargreave-hale.co.uk/VCT/aimvct2/default.htm). Shareholders have the opportunity to communicate directly with the Board at the AGM. All shareholders are encouraged to attend the AGM.

### Going Concern

After making enquires, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Approved on behalf of the Board of Directors

David Hurst-Brown  
Chairman

Date: 13 June 2011

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## In respect of the financial statements

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 financial statements for each financial year. Under that law the directors are required to prepare the financial statements and have elected to prepare the company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

### Directors' responsibility statement pursuant to DT4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice and give a true and fair view of the assets, liabilities, financial position and profit and loss of the company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the company, together with a description of the principal risks and uncertainties that it faces.

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

# INDEPENDENT AUDITORS' REPORT

## To the members of Hargreave Hale AIM VCT2 plc

We have audited the financial statements of Hargreave Hale AIM VCT2 Plc for the year ended 28 February 2011 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Reconciliation of Movement in Shareholders' Funds and the related notes. The financial reporting framework that has been applied in the preparation of the company's financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practise).

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 auditors**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 28 February 2011 and of the company's profit for the year then ended;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20, in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the seven provisions of the June 2010 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Neil Fung-On (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

Date: 13 June 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# INCOME STATEMENT

For the year ended 28 February 2011

	Note	Revenue £000	Ordinary Shares Capital £000	Total £000
Net gain on investments held at fair value through profit or loss	7	-	738	738
Income	2	67	-	67
		-----	-----	-----
		67	738	805
		-----	-----	-----
Management fee	3	(11)	(32)	(43)
Other expenses	4	(252)	-	(252)
		-----	-----	-----
		(263)	(32)	(295)
		-----	-----	-----
(Loss)/Profit on ordinary activities before taxation		(196)	706	510
Taxation	5	-	-	-
		-----	-----	-----
(Loss)/Profit after taxation		(196)	706	510
		-----	-----	-----
(Loss)/Profit per share (pence)	6	(3.57)p	12.84p	9.27p
		-----	-----	-----

# INCOME STATEMENT

For the year ended 28 February 2010

	Note	Revenue £000	Ordinary Shares Capital £000	Total £000
Net gain on investments held at fair value through profit or loss	7	-	785	785
Income	2	64	-	64
		-----	-----	-----
		64	785	849
		-----	-----	-----
Management fee	3	(11)	(33)	(44)
Other expenses	4	(135)	-	(135)
		-----	-----	-----
		(146)	(33)	(179)
		-----	-----	-----
(Loss)/Profit on ordinary activities before taxation		(82)	752	670
Taxation	5	-	-	-
		-----	-----	-----
(Loss)/Profit after taxation		(82)	752	670
		-----	-----	-----
(Loss)/Profit per share	6	(1.79)p	16.49p	14.70p

The total column of these statements is the income statement of the Company. All revenue and capital items in the above statement derive from continuing operations. There are no recognised gains or losses other than the profit for the year.

The accompanying notes are an integral part of these financial statements.



# BALANCE SHEET

As at 28 February 2011

Company registration number: 5941261

(in England and Wales)

	Note	2011 Ordinary £000	2010 Ordinary £000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	7	5,078	4,450
		-----	-----
<b>Current assets</b>			
Debtors	9	23	63
Cash at bank	12	1,121	140
		-----	-----
		1,144	203
Creditors: amounts falling due within one year	10	(68)	(48)
		-----	-----
Net current assets		1,076	155
		-----	-----
Net assets		6,154	4,605
		-----	-----
<b>Capital and Reserves</b>			
Called up share capital	11	57	45
Special reserve		3,975	4,223
Capital reserve – realised		366	81
Capital reserve – unrealised		727	306
Revenue reserve		(247)	(51)
Share Premium		1,275	-
Capital redemption reserve		1	1
		-----	-----
Equity shareholders' funds		6,154	4,605
		-----	-----
Net asset value per share	13	107.92p	102.43p

These financial statements were approved and authorised for issue by the Board of Directors on 13 June 2011 and signed on its behalf by

**David Hurst-Brown**

Chairman

The accompanying notes are an integral part of these financial statements.

# CASH FLOW STATEMENT

For the year ending 28 February 2011

	Note	2011 Ordinary £000	2010 Ordinary £000
Net cash (outflow)/inflow from operating activities	15	(168)	(297)
Net financial investment	15	110	799
Dividends paid	18	(222)	(367)
		-----	-----
Cash (outflow)/inflow before management of liquid resources		(280)	135
Financing	15	1,261	(92)
		-----	-----
Increase in cash	12	981	43
		-----	-----

# RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ending 28 February 2011

Ordinary Shares	Share Capital £000	Capital Redemption Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Special Reserve £000	Share Premium £000	Revenue Reserve £000	Total £000
At 1 March 2010	45	1	81	306	4,223	-	(51)	4,605
Realised profits on investments	-	-	317	-	-	-	-	317
Unrealised gains on investments	-	-	-	421	-	-	-	421
Management fee charged to capital	-	-	(32)	-	-	-	-	(32)
Share buybacks	-	-	-	-	(26)	-	-	(26)
Subscriptions	12	-	-	-	-	1,275	-	1,287
Equity dividends paid (Note 18)	-	-	-	-	(222)	-	-	(222)
Revenue loss after taxation for the period	-	-	-	-	-	-	(196)	(196)
	-----	-----	-----	-----	-----	-----	-----	-----
At 28 February 2011	57	1	366	727	3,975	1,275	(247)	6,154
	-----	-----	-----	-----	-----	-----	-----	-----

Reserves available for distribution are capital reserve realised, special reserve and revenue reserve.

# RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ending 28 February 2010

Ordinary Shares	Share Capital £000	Capital Redemption Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Special Reserve £000	Revenue Reserve £000	Total £000
At 1 March 2009	46	-	93	(91)	4,315	31	4,394
Previously recognised gains now realised	-	-	388	-	-	-	388
Unrealised gains on investments	-	-	-	397	-	-	397
Management fee charged to capital	-	-	(33)	-	-	-	(33)
Share buybacks	(1)	1	-	-	(92)	-	(92)
Equity dividends paid (Note 18)	-	-	(367)	-	-	-	(367)
Revenue loss after taxation for the year	-	-	-	-	-	(82)	(82)
At 28 February 2010	45	1	81	306	4,223	(51)	4,605

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

### **Basis of preparation**

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK GAAP and with the Statement of Recommended Practice (SORP) for "Financial Statements of Investment Trust Companies" issued in January 2009.

### **Investments**

Listed investments and investments traded on AIM are stated at closing bid market prices. Investments are recognised and derecognised at trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are measured initially at fair value. Subsequent to initial recognition, investments are valued at fair value which is deemed to be bid market prices.

Gains and losses arising from changes in fair value (realised and unrealised) are included in the net profit or loss for the period as a capital item in the Income Statement and are ultimately recognised in the unrealised capital reserve or realised capital reserve (as appropriate).

### **Determining fair value**

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price in an active market wherever possible. Where no such active market exists for the particular asset or liability, the Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The fair value of such assets or liabilities will be reviewed on a 6 monthly basis and more frequently if events occur that could have a material impact on the investment. All inputs are market observable (with the exception of level 3 financial instruments note 7).

### **Income**

Equity dividends are taken into account on the ex-dividend date, net of any associated tax credit. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income, including deposit interest receivable, is recognised on an accruals basis.

### **Expenditure**

All expenditure is accounted for on an accruals basis. 75% of investment management fees are allocated to the capital reserve – realised and 25% to the revenue account in line with the Board's expected long term split of investment returns in the form of capital gains to the capital column of the Income statement. All other expenditure is charged to the revenue account.

### **Capital Reserves**

Realised profits and losses on the disposal of investments, losses realised on investments considered to be permanently impaired and 75% of Investment Management fees are accounted for in the Capital Reserve – realised.

Increases and decreases in the valuation of investments held at the year end are accounted for in the Capital Reserve – unrealised.

## 1. Accounting Policies (continued)

### Taxation

The tax effect of expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting year. Any liability to corporation tax is based on net revenue for the year.

### Dividends

Only dividends paid during the year are deducted from revenue or capital reserves. Dividends which are declared subsequent to the balance sheet date will not be shown as a liability in the balance sheet.

## 2. Income

	2011 £000	2010 £000
Income from listed investments:		
UK dividends	24	12
Unfranked investment income	39	51
	-----	-----
	63	63
Other income:		
Deposit interest	4	1
	-----	-----
Total income	67	64
	-----	-----

## 3. Management Fees

	2011 Revenue £000	2011 Capital £000	2011 Total £000	2010 Revenue £000	2010 Capital £000	2010 Total £000
Ordinary Shares						
Management fees	11	32	43	11	33	44
	-----	-----	-----	-----	-----	-----
	11	32	43	11	33	44
	-----	-----	-----	-----	-----	-----

The Company's Investment Manager is Hargreave Hale Limited. The Investment Management Agreement terminates on a 12 calendar months' notice, subject to earlier termination in certain circumstances. No notice had been given by the Investment Manager or by the Board to terminate the agreement as at the date of approval of these accounts.

The Investment Manager receives an investment fee of 1.3 per cent. per annum of the net asset value of the Company, calculated and payable quarterly in arrears. The fee changed from 0.9 per cent. to 1.3 per cent. from 1 October 2010 to reflect the changes to the Investment Management Agreement. At 28 February 2011, £13,460 (2010 – £10,265) was owed in respect of management fees.

A performance related incentive fee will be payable at the rate of 20 per cent. of any dividends paid to shareholders in excess of 6p per ordinary share per annum, provided that the net asset value per share is at least 95p. A payment will be made after 28 February 2011 provided cumulative distributions in the preceding three accounting periods exceed 18p per ordinary share. Thereafter, a performance related incentive fee will be payable annually provided the hurdles have been exceeded, with any cumulative shortfalls below 6p per ordinary share having to be made up in subsequent years before the incentive fee becomes payable. No performance related incentive fee is payable as at 28 February 2011.

#### 4. Other Expenses

	2011	2010
	£000	£000
General expenses		
Administration Fee (HH)	35	20
Management Fee (KIS)	35	(47)
Legal & Professional	22	17
Other expenses	95	85
Directors' fees	53	50
Auditors' remuneration		
- for audit services	12	10
	-----	-----
	252	135
	-----	-----

The maximum aggregate Directors' emoluments authorised by the Articles of Association are £200,000 per annum.

#### 5. Tax on ordinary activities

The tax charge for the year is based on the standard rate of UK Corporation Tax of 28%.

	2011	2010
	Total	Total
	£000	£000
Profit on ordinary activities before taxation	510	670
	-----	-----
UK Corporation Tax 28% (2010 – 28%)	143	188
Effect of non taxable gains/losses on investments	(207)	(220)
Effect of non taxable UK dividend income	(7)	(3)
Effect of prior year losses utilised	-	-
Effect of current year losses carried forward	71	35
	-----	-----
Current tax charge	-	-
	-----	-----

Tax losses carried forward at the balance sheet date were £409,770 (2010 - £157,164).

There is no taxation charge in relation to capital gains or losses. No asset or liability has been recognised in relation to capital gains or losses on revaluing investments. The Company is exempt from such tax as a result of its intention to maintain its status as a Venture Capital Trust.

#### 6. Earnings per share

	2011	2011	2011	2010	2010	2010
	Revenue	Capital	Total	Revenue	Capital	Total
	pence	pence	pence	pence	pence	pence
Return (loss) per ordinary share: - basic	(3.57)p	12.84p	9.27p	(1.79)p	16.49p	14.70p
	-----	-----	-----	-----	-----	-----

Revenue return per ordinary share based on a net revenue loss on ordinary activities after taxation of £196,000 (2010 - £82,000) and on 5,494,893 (2010 – 4,558,807) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share based on a net capital profit of £706,000 (2010 – £752,000) for the year and on 5,494,893 (2010 – 4,558,807) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

## 7. Investments

	AIM Quoted Investments		Unquoted Investments		Listed Investments		Total Investments	
	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000	2011 £000	2010 £000
Investments	3,861	3,315	358	308	859	827	5,078	4,450
Movement in year:								
Opening Valuation	3,315	1,669	308	-	827	2,795	4,450	4,464
Purchases at cost	2,105	5,153	50	308	299	998	2,454	6,459
Sales - proceeds	(2,297)	(4,240)	-	-	(267)	(3,018)	(2,564)	(7,258)
- realised gains	303	295	-	-	14	93	317	388
Movements unrealised	435	438	-	-	(14)	(41)	421	397
Closing valuation	3,861	3,315	358	308	859	827	5,078	4,450
Closing book cost	3,167	3,034	358	308	848	802	4,373	4,144
Closing unrealised	695	281	-	-	10	25	705	306
Realised gain/(loss) on sales	303	295	-	-	14	93	317	388
Unrealised gain/(loss) on investments	435	438	-	-	(14)	(41)	421	397
Gain/(loss) on investments	738	733	-	-	-	52	738	785

### Fair value measurement hierarchy

FRS 29 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into one of the three levels.

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.

Level 3 financial instruments are valued using the most recent transactions based on arms length basis. In addition we consider discounted cash flow analysis based on the most recent companies management accounts and anticipated future performance.

### Mexican Grill Limited (unquoted)

The fund manager compares corporate trading EBITDA and store specific EBITDA from management accounts and future estimates produced by the company as well as his own forecasts when reviewing the valuation of the investment and management information provided.

For measurement against the company's peer group we use the EV/EBITDA as a measure of performance. Although we would like to highlight that the peer group is of limited use as a comparator, with the two closest to Mexican Grill Limited in terms of size and maturity, commanded much higher multiples in their early stages of expansion.

### TMO Renewables Limited (unquoted)

The fair value of the Investment has been based on cost given the proximity of the investment to the year end (Investment date: 12 January 2011).

## 7. Investments (continued)

	2011 Level 1 £'000	2011 Level 3 £'000	2011 Total £'000	2010 Level 1 £'000	2010 Level 3 £'000	2010 Total £'000
Investments	4,720	358	5,078	4,142	308	4,450
	-----	-----	-----	-----	-----	-----

## 8. Significant Interests

At the year end the Company held 3% or more of the issued share capital of the following investments:

Hardide 4.50% Mexican Grill 7.38%

## 9. Debtors

	2011 £000	2010 £000
Prepayments and accrued income	23	63
	-----	-----

## 10. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade Creditors	12	-
Accruals and deferred income	56	48
	-----	-----
	68	48
	-----	-----

## 11. Called up share capital

	2011 £000	2010 £000
Allotted, called-up and fully paid: 5,702,685 (2010 – 4,495,740) ordinary shares of 1p each	57	45
	-----	-----

During the year 28,240 ordinary shares were purchased at a cost of £25,376, of which all shares were cancelled.

During the year, the Company issued 1,235,185 ordinary shares (nominal value £12,352) in a joint offer for subscription which resulted in funds being received of £1,340,000 from subscriptions of which 5% (£67,000) was payable to Hargreave Hale Limited to cover the cost of additional shares allotted from commission re-invested of £14,506, initial commission of £25,155 and trail commission of £2,081, resulting in fees payable to Hargreave Hale Limited of £25,258.

### *Income entitlement*

The revenue earnings of the company are available for distribution to holders of Ordinary shares by way of interim, final and special dividends (if any) as may from time to time be declared by the Directors.

### *Capital entitlement*

The capital reserve – realised and special reserve of the company are available for distribution to holders of Ordinary shares by way of interim, final and special dividends (if any) as may from time to time be declared by the Directors.

On a winding up of the Company, after settling the liabilities of the Company, holders of Ordinary shares would be entitled to receive a rateable proportion of any surplus assets depending on the amounts paid up or credited as paid up on their shares.

### *Voting entitlement*

Each Ordinary shareholder is entitled to one vote on a show of hands, and on a poll to one vote for each Ordinary share held. Notices of Meetings and Proxy Forms set out the deadlines for valid exercise of voting rights and, other than with regard to Directors not being permitted to vote on matters upon which they have an interest, there are no restrictions on the voting rights of Ordinary shareholders.



## 11. Called up share capital (continued)

### *Transfers*

There are no restrictions on transfers except dealings by Directors, Persons Discharging Managerial Responsibilities and their connected persons which may constitute insider dealing or is prohibited by the rules of the UKLA.

The company is not aware of any agreements with or between shareholders which restrict the transfer of Ordinary shares, or which would take effect or alter or terminate in the event of a change of control of the Company.

## 12. Analysis of changes in net funds

	At 1 March 2010	Cash Flows	At 28 February 2011
	£000	£000	£000
Cash at bank	140	981	1,121
	-----	-----	-----
	At 1 March 2009	Cash Flows	At 28 February 2010
	£000	£000	£000
Cash at bank	97	43	140
	-----	-----	-----

## 13. Net asset value per ordinary share

The net asset value per ordinary share and the net asset values attributable at the year end were as follows:

	Net asset value per share		Net assets attributable	
	2011	2010	2011	2010
	pence	pence	£000	£000
Ordinary shares - Basic	107.92	102.43	6,154	4,605
	-----	-----	-----	-----

Net asset value per share is based on net assets at the year end and on 5,702,685 (2010 – 4,495,740) ordinary shares being the number of shares in issue at year end.

## 14. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company at the year end (2010 - nil).

## 15. Notes to the Cash Flow Statement

### (a) Reconciliation of operating profit to operating cash flows

	2011	2010
	£000	£000
Total profit on ordinary activities before taxation	510	670
Realised (gains)/losses on investments	(317)	(388)
Unrealised (profit)/losses on investments	(421)	(397)
Decrease/(increase) in debtors	40	(17)
Increase/(decrease) in creditors	20	(165)
	-----	-----
Net cash (outflow) from operating activities	(168)	(297)
	-----	-----

**15. Notes to the Cash Flow Statement (continued)****(b) Analysis of cash flow for headings netted in cash flow statement**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Net financial investment:		
Purchase of investments	(2,454)	(6,459)
Sale of investments	2,564	7,258
	-----	-----
	110	799
	-----	-----
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Financing:		
Share Buybacks	(26)	(92)
Issue of Share Capital	1,287	-
	-----	-----
	1,261	(92)
	-----	-----

**16. Related party transactions****Hargreave Hale Limited**

Mr G Hargreave, a director of the Company, is the Chief Executive Officer of Hargreave Hale Limited and has an interest in excess of 7% in that company. As such, Hargreave Hale Limited is considered to be a related party to the Company. Hargreave Hale Limited acts as Investment Manager, Administrator, Custodian and provides Directorship and Company Secretarial Services to the Company. All of the functions performed by Hargreave Hale Limited are segregated by department and location and are independent of each other.

Hargreave Hale Limited in its capacity as Investment Manager of the fund receives annual fees of 1.3% per annum of the net asset value of the Company, calculated and payable quarterly in arrears. The fee changed from 0.9% to 1.3% from 1 October 2010 to reflect the changes to the Investment Management Agreement. Fees for the year are £43,590 (2010 - £43,625) as detailed in note 3. Hargreave Hale is responsible for Administration, Company Secretary, Directorship and Custodian services and received fees of £77,000 (2010 - £36,167) in relation to these services. Of those fees, £19,877 (2010 - £16,682) was still owed at the year end.

Hargreave Hale Limited has agreed to indemnify the Company against annual running costs (such costs excluding VAT, any Performance Incentive Fee and any trail commissions the payment of which is the responsibility of the Company) exceeding 3.5% of its net assets (pro rata from 1 October 2010). Fees of £15,685 were waived by Hargreave Hale Limited since 1 October 2010 under the indemnity.

In relation to the joint offer for subscription made by the Company and Hargreave Hale AIM VCT 1 Plc pursuant to a prospectus dated 19 March 2010, Hargreave Hale Limited agreed as agent of those companies to use its reasonable endeavours to procure subscribers under that offer. Hargreave Hale Limited will receive 5 per cent. of the aggregate value of accepted applications for ordinary shares in relation to each company. Out of this fee, Hargreave Hale Limited will pay all other costs and expenses of or incidental to the offer. At the 28 February 2011, Hargreave Hale AIM VCT 2 plc paid commissions to Hargreave Hale Limited amounting to £25,258 after deducting cost of additional shares, initial commission and trail commission due to shareholders and IFA's of £41,742.

## 17. Financial instruments

### a) Risk Management Policies and Procedures

The investment objective of the Company is to achieve long term capital growth and to maximise tax free distributions to shareholders by investing in a diversified portfolio of small capitalised UK companies primarily trading on AIM. At least 70% of the Company's funds have been invested in qualifying holdings during the year. The balance of the Company's fund will be invested in liquid assets (such as gilts, other fixed interest securities and bank deposits). The Company is managed as a Venture Capital Trust ("VCT") in order that shareholders in the Company may benefit from the tax relief available.

This strategy exposes the Company to certain risks which are summarised below.

The structure in place to manage these risks is set out in the Corporate Governance report on page 20 of the annual report and accounts. The Board meets quarterly to review accounts and monitor all risks.

A detailed review of the investment portfolio is contained in the Chairman's statement and Manager's report on pages 4 and 7 respectively.

The investments at year end comprise two types of financial instrument. The basis of valuation is set out below:

1. Equity – fair valued through the profit and loss account.
2. UK gilts and Corporate Bonds – fair value through the profit and loss account.

Other financial assets comprise cash at bank of £1,121,000 (2010 - £140,000) which is classified as 'loans and receivables measured at amortised cost'. Financial liabilities consist of trade creditors and accruals of £70,000 (2010 - £48,000) which are classified as 'financial liabilities measured at amortised cost'.

### b) Market Risk

Market price risk arises from any fluctuations in the value of investments held by the company. Adherence to investment policies mitigates the risk of excessive exposure to any particular type of security or issuer. In particular no more than 15% of the investment portfolio is invested in any one equity. However by its nature the investments are in small companies traded on the AIM market therefore they carry a higher concentration of risk than large capitalisation investment portfolios.

Market risk is monitored by the Board on a quarterly basis and on an ongoing basis through the Investment Manager.

The following table summarises exposure to price risk by asset class at year end date:

		<b>2011</b>	<b>2010</b>
		<b>£000</b>	<b>£000</b>
Equity	Fair value	4,220	3,623
Gilts/Bonds	Fair value	858	827
		-----	-----
		5,078	4,450
		-----	-----

A 10% increase or decrease in the investment portfolio would have a £507,800 (2010 - £445,000) impact on the profit and loss account.

### c) Currency Risk

All transactions are in pounds sterling therefore there is no currency risk.

## 17. Financial instruments (continued)

### d) Interest Rate Risk

The Company is fully funded through equity and has no debt therefore interest rate risk is not considered a material risk.

The Company's financial assets and liabilities are denominated in Sterling as follows:

	28 February 2011				28 February 2010			
	Fixed Rate £000	Variable Rate £000	Non-interest Bearing £000	Total £000	Fixed Rate £000	Variable Rate £000	Non-interest Bearing £000	Total £000
Investments	858	-	4,220	5,078	827	-	3,623	4,450
Cash and cash Equivalents	-	1,121	-	1,121	-	140	-	140
Other current assets and current liabilities (net)	-	-	(45)	(45)	-	-	15	15
Net assets	858	1,121	4,175	6,154	827	140	3,638	4,605

Interest rate risk exposure relates to UK Gilts and Corporate bonds with fixed determinable payments and cash and cash equivalents (bank deposits) where interest income is primary linked to bank base rates. Interest rate risk exposure on debt instruments is reflected in the market risk and since these securities are valued at fair value no additional disclosure is made in this respect. Movements in interest rates on cash and cash equivalents are not considered a material risk.

### e) Liquidity Risk

Liquidity risk is the risk that the company is unable to meet obligations as they fall due. As the Company has no debt or other financial liabilities liquidity risk is not considered material. As at 28 February 2011 the Company held £1,121,000 on bank deposit.

### f) Credit Risk

Credit risk relates to the risk of default by a counterparty. No assets are past due date for payment or impaired.

An asset is considered to be impaired in the case of investments if the investee company makes continued losses or defaults on any payment.

The maximum credit risk exposure equates to the carrying value of assets at the balance sheet date:

	2011 £000	2010 £000
Investments – UK Gilts	858	827
Cash & cash equivalents	1,121	140
Other current (liabilities)/assets (net)	(45)	15
	1,934	982

Cash balances were held on deposit with RBS at 28 February 2011.

### g) Fair value of financial assets and financial liabilities

Equity investments and UK gilts are held at fair value. No investments are held for trading purposes only.

### h) Capital Management Policies and Procedures

The current policy is to fund investments through equity. No future change to this policy is envisaged. As a PLC, the Company is required to hold a minimum £50,000 share capital.

The Company's capital is summarised in Note 11 to these accounts. The Company has no debt and is fully funded by equity.

## 18. Dividends

	2011 Ord £000	2010 Ord £000
Paid per share:		
Final dividend of 2 pence for the year ended 28 February 2009	-	229
Paid per share:		
Final dividend of 2 pence for the year ended 28 February 2010	111	-
Paid per share:		
Interim dividend of 2 pence for year ended 28 February 2011	111	-
Paid per share:		
Interim dividend of 3 pence for year ended 28 February 2010	-	138
	-----	-----
	222	367
	-----	-----
Proposed per share:		
Final dividend of 3 pence for the year ended 28 February 2011	202	-
	-----	-----
Proposed per share:		
Final dividend of 2 pence for the year ended 28 February 2010	-	111
	-----	-----

## 19. Post Balance Sheet Events

In the tax year 2010/2011, the Offer resulted in funds being received of £0.94 million and 0.86 million shares have been issued in respect of Hargreave Hale AIM VCT 2 plc. The Offer opened on 20 March 2010 and closed on 8 March 2011.

On the 9 March 2011 a new joint offer for subscription of Ordinary Shares was opened to raise approximately £2.65 million, in aggregate, in New Ordinary Shares for Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc. To date the Offer has resulted in funds being received of £0.45 million and 0.42 million shares have been issued in respect of Hargreave Hale AIM VCT 2 plc. The offer will close on the earlier of 29 July 2011 or the date on which the maximum is reached.

# GLOSSARY OF TERMS

**Discount**

The amount by which the bid-market price per share of a venture capital trust is lower than the net asset value per share. The discount is normally expressed as a percentage of the net asset value per share.

**EBITDA**

This is the earnings before interest, taxes, depreciation and amortisation. An approximate measure of a company's operating cash flow based on data from the company's income statement.

**Enterprise Value (EV)**

This is how much a company would cost, if you were to buy it outright—free and clear. You would have to pay the price per share times the number of shares plus you would have to pay off the debt of the company, but you could subtract the cash and marketable securities owned by the company, since you would now own it, which would reduce the effective price of the company. Note that sometimes, preferred stock is added to net debt because it is much like a debt instrument.

**Market Capitalisation**

The amount obtained by multiplying the stock market price of an ordinary share by the number of ordinary shares in issue.

**Net Assets**

Also called equity shareholders' funds. The amount due to the ordinary shareholders.

**Net Asset Value**

The net asset value is the value of the total assets less liabilities. Liabilities for this purpose include current and long term liabilities. The net asset value per share is calculated by dividing the net asset value by the number of ordinary shares in issue.

**Shareholders' Fund**

Also called equity shareholders' fund. The amount due to the ordinary shareholders.

**Total Expense Ratio**

Total expenses incurred (excluding interest but including any irrecoverable VAT and any expenses charged to capital reserve) divided by Shareholders' funds.

**Total Return**

The total return per share is the value of the total assets plus total dividend distributions made to date less liabilities (current and long term liabilities) divided by the number of ordinary shares in issue. This allows performance comparisons to be made between venture capital trusts with different dividend policies.

# Company Information

## **Secretary and Registered Office**

Stuart Brookes  
19 Cavendish Square  
London  
W1A 2AW

## **Manager**

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W1U 7AL

## **Registrars**

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Lancing  
West Sussex  
BN99 6ZL

## **Solicitors**

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19 Cavendish Square  
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W1A 2AW

## **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## **VCT Status Adviser**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2 6RH

## **Brokers**

Singer Capital Markets Limited  
One Hanover Street  
London  
W1S 1YZ

## **Company Registration Number**

05941261 in England and Wales

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Hargreave Hale AIM VCT 2 plc ("the Company") will be held at 19 Cavendish Square, London W1A 2AW on 22 July 2011 at 11.00am for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 6 will be proposed as ordinary resolutions and 7 and 8 as special resolutions:

## Ordinary Business

1. To receive and, if thought fit, to accept the Reports of the Directors and Auditor and the audited financial statements for the year ended 28 February 2011;
2. To receive and approve the Directors Remuneration Report for the year ended 28 February 2011;
3. To reappoint BDO LLP as Auditors to the company and to authorise the Directors to determine their remuneration;
4. To elect Philip Cammerman as a Director of the Company;
5. To approve a final dividend of 3 pence per ordinary share in respect of the year ended 28 February 2011.

## Special Business

### *Ordinary Resolution*

6. THAT, in substitution for existing authorities to the extent unused, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot ordinary shares of 1p ("Ordinary Shares") each in the capital of the Company and to grant rights to subscribe for or convert any security into Ordinary Shares in the Company ("Rights") up to an aggregate nominal value of £30,000, this authority to expire on the earlier of the conclusion of the Company's next annual general meeting in 2012 and the expiry of 15 months from the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting), 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 Ordinary Shares to be allotted or Rights to be granted after such expiry.

### *Special Resolutions*

7. THAT, in substitution for any existing power under Section 570 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered during the period commencing on the passing of this resolution and expiring on the conclusion of the Company's next annual general meeting in 2012 or on the expiry of 15 months from the date of the passing of this resolution, whichever is the earlier (unless previously revoked, varied or renewed by the Company in general meeting pursuant to Section 570 of the Act), to allot equity securities (as defined in Section 560(1) and 560(2) of the Act) for cash pursuant to the authority given in accordance with Section 551 of the Act, pursuant to resolution (6) above, or by way of sale of treasury shares, as if Section 561 of the Act did not apply to any such allotment or sale, but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.
8. 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 163(3) of the Act) of Ordinary Shares on such terms and in such manner as the Directors may determine (either for cancellation or for the retention as treasury shares for future re-issue, transfer or cancellation) provided that:
  - a) the maximum aggregate number of Ordinary Shares authorised to be purchased is such number thereof being 14.99% of the issued share capital;
  - b) the maximum price 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;
  - c) the minimum price which may be paid for an Ordinary Share is its respective nominal value;
  - d) this authority shall expire at the conclusion of the Company's next annual general meeting in 2012 or on the expiry of 15 months following the passing of the resolution, whichever is the earlier (unless previously revoked, varied or renewed by the Company in general meeting); and
  - e) 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

**Stuart Brookes**  
Company Secretary

Registered Office:  
19 Cavendish Square  
London W1A 2AW

Date: 13 June 2011

A member entitled to attend and vote at this meeting may appoint a proxy to attend and vote instead of him or her. A proxy need not also be a member of the Company. To be effective, forms of proxy together with the power of attorney or other authority, if any, under which it is signed, or a notorically certified copy or a copy certified in accordance with the Powers of Attorney Act 1941 of that power or authority must be lodged with the Company's Registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZL not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Lodgement of the form of proxy will not preclude a Shareholder from attending the meeting and voting in person.

The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the Company in accordance with Section 146 of the 2006 Act ("nominated persons"). Nominated persons may have a right under an agreement with the member who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001 specifies that only those Shareholders registered in the register of members of the Company as at 6.00pm on 20 July 2011 or, in the event that the meeting is adjourned, on the register of members at 6.00pm on the day 2 days prior to the reconvened meeting, shall be entitled to attend or vote at the aforesaid annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant registrar of securities after 6.00pm on 20 July 2011 (or in the event that the meeting is adjourned, as at 6.00pm two days prior to the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting notwithstanding any provisions in any enactment, the Articles of Association of the Company or any other instrument to the contrary.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). CREST personal members or other CREST sponsored members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take appropriate action on their behalf. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST proxy instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Equiniti, the Company's Registrar (ID RA19), not later than 48 hours before the time appointed for the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and where applicable their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website [www.hargreave-hale.co.uk/VCT/aimvct2/default.htm](http://www.hargreave-hale.co.uk/VCT/aimvct2/default.htm).

Shareholders (and any proxy or representatives they appoint) agree, by attending the meeting, that they are expressly requesting that they are willing to receive any communications (including communications relating to the Company's securities) made at the meeting.

You may not use any electronic address provided either in this Notice of Meeting or any related documents (included in the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.

**Note:**

1. The following documents will be available for inspection at the registered office of the Company during usual business hours on a weekday (except Saturdays, Sundays and Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes up to and during the meeting;
  - a) The Articles of Association
  - b) The Directors' letters of appointment, and in relation to Philip Cammerman's appointment as a director of the Company, the Administration Agreement between the Company and Philip Cammerman.

