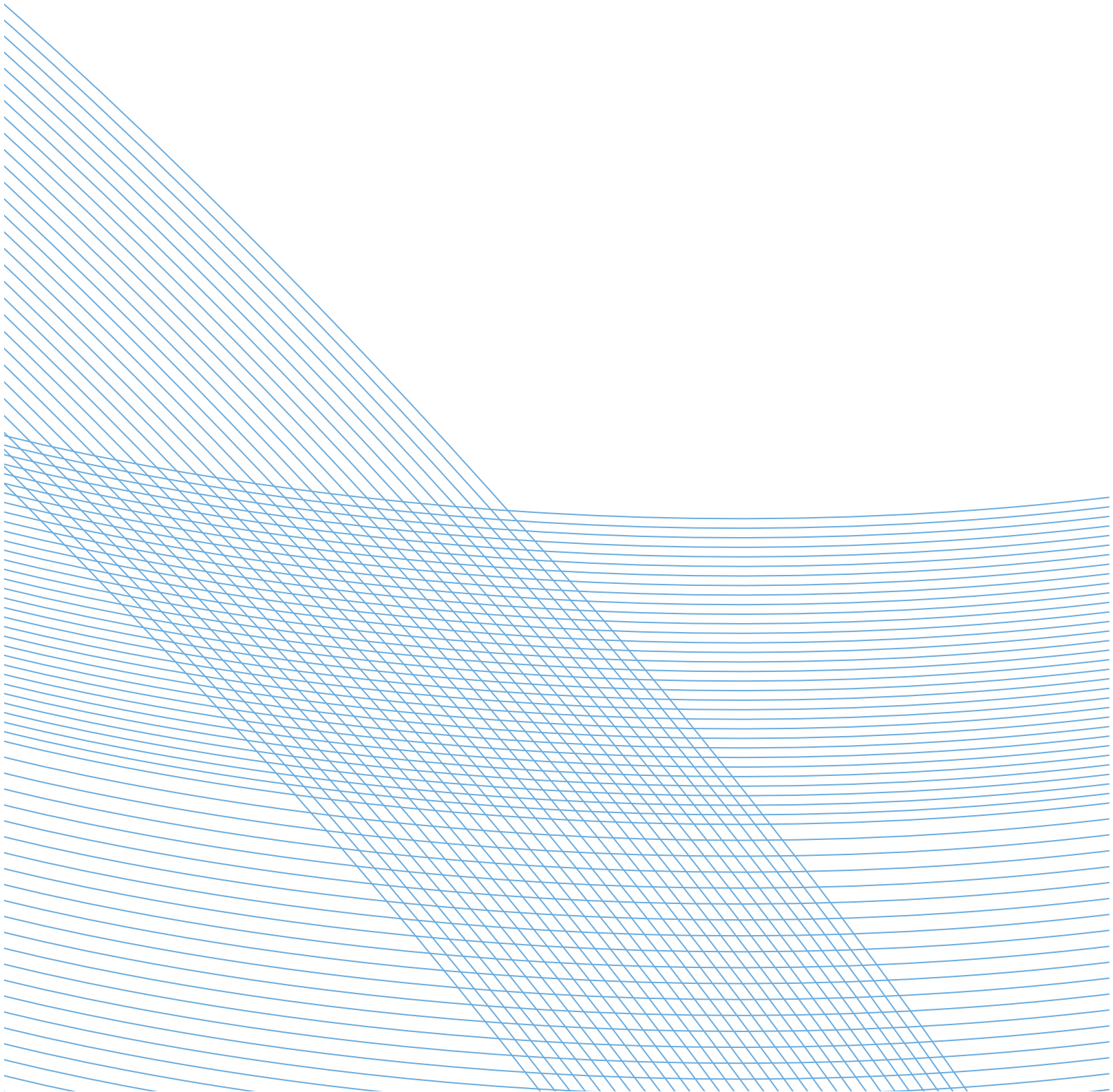


# HARGREAVEHALE AIM VCT 2 plc

Annual Report and Accounts  
Year ended 28 February 2014



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## **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 Company’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 <http://www.hargreave-hale.co.uk/fund-management/venture-capital-trusts/hargreave-hale-aim-vct-2/share-price-and-nav/>.

# FINANCIAL HIGHLIGHTS

<b>Ordinary Shares (as at 28 February):</b>	<b>2014</b>	<b>2013</b>
Net asset value per share	120.24p	95.69p
Cumulative distributions paid per share since launch	31p	26p
Total return per share	151.24p	121.69p
Annual Returns per share:		
Revenue return	(1.73)p	(2.28)p
Capital return	33.61p	6.31p
Combined Return	31.88p	4.03p
Dividends per share:		
Interim paid	2.0p	2.0p
Final proposed	4.0p	3.0p
Total dividend for year	6.0p	5.0p
Performance Benchmark:		
Total Return	159.2%	128%
FTSE AIM All-share Index	77.1%	64%
(results rebased to 100 at 6 April 2007)		

The Glossary of Terms can be found on page 48 of the report.

# CHAIRMAN'S STATEMENT

## Introduction

We are pleased to report on a successful year. The fund has performed well and our recent equity raising efforts have more than doubled the size of assets under management creating a much more cost effective business to the benefit of all our shareholders. I would like to welcome all our new shareholders.

At 28 February 2014 the NAV was 120.24 pence which after adjusting for the dividends paid gives a total return since inception of 151.24 pence. The profit per ordinary share for the year was 31.88 pence per share (comprising revenue losses of 1.73 pence and capital gains of 33.61 pence). During the financial year as a whole the FTSE AIM All Share Index rose by 20.5% and the FTSE All-share index rose by 9.5%. Whilst the FTSE AIM All-Share index is the only sensible benchmark, it is not strictly comparable as it has a high proportion of large mining and commodities stocks in which a VCT cannot invest.

## Investments

The Investment Manager, Hargreave Hale Limited, invested a further £2.3 million in 20 qualifying companies during the year. The Fair Value of qualifying investments at 28 February 2014 was £10.4 million invested in 39 AIM companies and 5 unquoted companies. The balance of the fund, £6.4 million was held in a mix of cash, fixed income and other non-qualifying equities; more detail can be found in the Investment Manager's Report on page 10.

## Dividend

An interim dividend of 2 pence was paid on 8 November 2013 (2012 – 2 pence).

A final dividend of 4 pence is proposed (2013 – 3 pence) which, subject to shareholder approval at the AGM will be paid on 10 July 2014, to ordinary shareholders on the register on 6 June 2014.

Provided the underlying investment performance of the Company remains acceptable and the liquidity position allows, it remains our policy to target a 5% distribution yield referenced to the NAV of the Company.

## Buybacks

In total, 438,700 shares were purchased during the year at an average price of 94.41 pence per share.

The Board continues to target a discount of 5% for market purchases. It should be emphasised that this target is non-binding and dependent on circumstances including the funds liquidity from time to time and market conditions.

## Issue of Equity

The joint offer for subscription (together with Hargreave Hale AIM VCT 1) closed on 25 September 2013 and resulted in funds being received for Hargreave Hale AIM VCT 2 of £2.74 million and the issue of 2.82 million shares.

## New Joint Offer for Subscription of Ordinary Shares

The Directors of the Company announced on 1 November 2013 the launch of a new joint offer for subscription for new shares in both VCT's to raise up to £10 million into each company. The Offer was approved by shareholders of the Company at a General Meeting on 31 October 2013 and is open to both new and existing shareholders.

Since its launch on 1 November 2013 the offer has resulted in funds being received of £4.28 million and the issue of 3.88 million shares. The Offer will close at 12pm on 31 October 2014 or earlier if the maximum subscription has been reached before then. Since the year end a further £1.97m has been received under the Offer, bringing the total raised to £6.25m.

## 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. I am pleased to report that at the year-end we had achieved 88.97% and have satisfied all the relevant tests.

## Cancellation of Share Premium and Capital Redemption Reserve

At the Annual General Meeting of the Company held on 8 July 2013, a special resolution was passed approving the cancellation of an amount standing to the credit of the Company's share premium account and capital redemption reserve, subject to the approval of the Court.

The Company is pleased to announce that, following the approval of the Court and the subsequent registration of the Court order with the Registrar of Companies, the cancellation has now become effective. £7,813,065 and £24,923, previously held in the share premium account and capital redemption reserve respectively, has been transferred to the Company's special reserve account.

### **Outlook**

Over the past 12 months we have enjoyed most favourable investment conditions. The UK economy has surprised many with its strong growth. Inflation and interest rates have been benign and Eurozone worries have abated – for the moment. Against this background the AIM market has done especially well stimulated by a number of Government initiatives such as their eligibility for inclusion in ISA funds and more recently their exemption from Stamp Duty.

Nonetheless there remain huge political and economic uncertainties both internationally and nearer to home. The next 12 months will see the Scottish Referendum and a General Election in the UK. Markets are likely to be nervous ahead of both these milestones because, in each case their outcome could significantly change the business environment. Against this backdrop we expect further, perhaps greater market volatility.

We feel in a good position to operate in these conditions. As of the end of February 2014, our larger fund was invested 88.97% in Qualifying companies (as defined under the HMRC rules) and yet the Non Qualifying portfolio accounted for 37.5% by value of the fund. For the immediate future we therefore have no great pressure to make any further Qualifying investments and at the same time we have ample potential liquidity should our view of the markets become more defensive.

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

Date: 23 May 2014

# BOARD OF DIRECTORS

## **David Hurst-Brown**

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 worked 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. David is presently a non executive director of Imagination Technologies Group Plc, Anite Plc and Foresight Solar VCT Plc.

## **Giles Hargreave**

Giles is the Chairman 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. In 1998, Giles took over as the fund manager of the Marlborough Special Situations Fund. He also manages the Marlborough UK Micro Cap Growth Fund, the Marlborough Multi Cap Income Fund and Hargreave Hale AIM VCT 1 Plc. Giles heads up Hargreave Hale's investment committee and chairs the weekly meetings in which the team reviews existing and potential investments.

## **Philip Cammerman**

Philip has over 20 years experience in engineering and high-tech industries and has worked in both the UK and USA. He spent almost 30 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 its disposal. 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.

# STRATEGIC REPORT

The report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The Company's independent auditor is required by law to report on whether the information given within the strategic report is consistent with the financial statements. The auditor's report is set out on pages 29 to 31.

## Investment Objectives

The Company's investment 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 Company's funds; and
- targeted investment in equities which are non-qualifying investments on an opportunistic basis to boost the performance of the Company.
- to maintain the Company's exposure to small companies through an initial investment of new capital into the Marlborough Special Situations Fund pending investment into Qualifying Companies.

## Asset Allocation

The Company will have a range of investments in three distinct asset classes:

- Equity investments in Qualifying Companies, referred to as "**Qualifying Investments**". Qualifying Investments will:
  - comprise qualifying holdings for a VCT as defined in Chapter 4 Part 6 of the Income Tax Act 2007;
  - primarily be made in AIM companies, but the Company's investment manager ("**Investment Manager**") will also consider ISDX-quoted companies and private companies that meet the investment criteria summarised below.
  - vary in size from £50,000 to £1 million.
- Sovereign debt, quasi-sovereign debt, bonds, bank deposits that are readily realisable and other fixed income securities.
- Non-Qualifying equity exposure to UK and international equities through targeted investments made on an opportunistic basis to boost the performance of the Company or through an investment into the Marlborough Special Situations Fund.

## Investment Manager

The Company is managed by Hargreave Hale Limited, a fund manager with approximately £4.15 billion under administration and £3.7 billion under managed accounts. Hargreave Hale has been managing investments in UK Small and Micro Cap companies for 16 years and VCTs for 10 years. It has a long established reputation that stems from its management of the Marlborough Special Situations Funds and the Marlborough UK Micro Cap Fund, and more recently the VCTs. It has won numerous awards for its management of small cap funds, most recently the 2012 Quoted Company 'Investor of the Year' Award. In accordance with the investment policy, both Hargreave Hale AIM VCT 1 and Hargreave Hale AIM VCT 2 have made investments in the Marlborough Special Situations Fund, which has returned 1,754% since Giles Hargreave took responsibility for it in July 1998.

The investments of the Company are co-managed by Giles Hargreave and Oliver Bedford, with support from the rest of the firm's investment team together comprising a total investment team of 11. The investment team manages approximately £2.5 billion, of which approximately £1.8 billion is invested in small companies, many of which are quoted on AIM. The breadth of the investment team, the scale of investment in small companies and the Investment Manager's track record help attract deal flow.

## Investment Strategy

### Qualifying Investments

The Investment Manager will maintain a diversified and fully invested portfolio of Qualifying Investments, primarily in small UK companies with a quotation on AIM. The primary purpose of the investment strategy is to ensure the Company maintains its status as a VCT. To achieve this, the Company must have 70% of all funds raised from the issue of shares invested in Qualifying Investments throughout accounting periods of the VCT beginning no later than three years after the date on which those shares are issued.

Although VCTs are required to invest and maintain a minimum of 70% of their funds invested in Qualifying Investments as measured by the VCT rules, it is likely that the Investment Manager will target a higher threshold of approximately 80% in order to provide some element of protection against an inadvertent breach of the VCT rules. The Company's maximum exposure to a single Qualifying Investment is limited to 15% of net assets.

The key selection criteria used by the Investment Manager in deciding which Qualifying Investments to make include, inter alia:

- the strength and credibility of the management team;
- the business plan;
- the risk/reward profile of the investment opportunity;
- the quality of the finance function and budgetary process;
- the strength of the balance sheet relative to anticipated cash flow from operations; and
- the existing balance of investments within the portfolio of Qualifying Investments.

The Investment Manager will follow a stock specific, rather than sector specific, investment approach and is more likely to provide expansionary capital than seed capital.

The Investment Manager will primarily focus on investments in companies with a quotation on AIM or plans to trade on AIM. The Investment Manager prefers to participate in secondary issues of companies that are quoted on AIM as such companies have an established track record that can be more readily assessed and greater disclosure of financial performance. Secondary issues are often priced at an attractive discount to the market price.

#### ***Non-Qualifying Investments***

The Company will have non-qualifying equity exposure to UK and international equities through targeted investments made on an opportunistic basis to boost the performance of the Company. This will vary in accordance with the Investment Manager's view of the equity markets and may fluctuate between nil and 30% of the net assets of the Company. The Investment Manager will also invest in Gilts, other fixed income securities and cash.

The Investment Manager may invest up to 75% of the net proceeds of any issue of new shares into the Marlborough Special Situations Fund subject to a maximum of 20% of the gross assets of the Company. This will enable the Companies to maintain their exposure to small companies indirectly, whilst the Investment Manager identifies opportunities to invest directly into small UK companies through a suitable number of Qualifying Investments.

The allocation between asset classes in the non-qualifying portfolio will vary depending upon opportunities that arise with a maximum exposure of 100% of the non-qualifying portfolio to any individual asset class.

#### **Borrowings**

It is not the Company's present intention to have any borrowings. The Company does, however, have the ability to borrow a maximum amount up to 15% of the "Adjusted Capital and Reserves" amount (as such term is defined in the Articles of Association of each of the Company), which is effectively the aggregate of the nominal capital of the Company's issued and paid up and the amount standing to the credit of the consolidated reserves of the Company, less specified adjustments, exclusions and deductions. There are no plans to utilise this ability at the current time.

#### **Overview of the year**

In the financial year under review, net assets increased from £7.8m to £16.7m. In this period the NAV increased from 95.69p to 120.24p and achieved a return to ordinary shareholders, before dividends of 31.88p per share (based on the weighted average share capital in issue during the year).

#### **Dividends**

An interim dividend of 2 pence was paid on 8 November 2013 and a final dividend of 4 pence has been proposed.

#### **Buybacks**

In total, 438,700 shares were purchased during the year at an average price of 94.41 pence per share.

#### **Investments**

As a whole, during the year, the qualifying portfolio increased from £5.3m to £10.4m. The Company invested in 20 qualifying investments at a cost of £2.3m, of which 13 were investments into new holdings.

For further details please refer to the Investment Managers Report on page 10.



### 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 include:

- Net asset value
- Total return
- 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 risks stated below:

- 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.
- Investment risk** – Many of the Company's investments are held in small to medium sized unquoted or AIM quoted companies making them by nature risky investments. The directors aim to mitigate the risk by ensuring the maximum investment in any company does not exceed 15% of the Company's net assets.
- 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 has a share buyback policy whereby the Company purchases shares for cancellation.
- Currency risk** – The Company is exposed to currency risk when disposing of investments in foreign currencies, to minimise this risk investments into foreign companies are kept to a minimum.
- Interest rate risk** – The Company is solely funded through equity and therefore has no borrowings. The Company does however invest in UK Gilts and corporate bonds from which the Company receives interest income. Any material movements in interest rates could affect the amount of income the Company receives. Revenue received from Gilts and corporate bonds equates to less than 2% of revenue, the Company therefore does not consider this to be a material risk.

Additional risks and further details of the above risks and how they are managed are explained in Note 17 of the financial statements.

### Additional disclosures required by the Companies Act

#### Greenhouse Emissions

Whilst as a UK quoted Company the VCT is required to report on its Greenhouse Gas Emissions, as it outsources all of its activities and does not have any physical assets, property, employees or operations, it is not responsible for any direct emissions.

#### Employees

The Company had no employees during the year and all directors are male.

**STUART BROOKES**

**Company Secretary**

23 May 2014

# INVESTMENT MANAGER'S REPORT

This report covers the financial year, 1 March 2013 to 28 February 2014. The manager's report contains references to movements in the Net Asset Value per share (NAV) and Total Return per share (net asset value per share plus distributed dividends per share). Movements in the NAV per share do not necessarily mirror the earnings per share (EPS) reported in the accounts and elsewhere, which convey the profit after tax within the company within the reported period as a function of the weighted average number of shares in issue for the period.

## Market Commentary

We've previously written about the improving outlook for AIM stocks and renewed interest in companies listed on AIM. This trend was particularly strong throughout the second half of the financial year, helping to drive the NAV materially higher. Not unsurprisingly, we have now entered a period of consolidation with some of the more highly rated stocks experiencing a moderate pullback in their share prices. We regard this as a healthy development. The improving outlook for the global economy continues to create a better trading environment for your portfolio companies, which is feeding through to strong results and increased levels of business confidence. Valuations have increased but don't look unreasonable when viewed across the board and within the context of the anticipated earnings growth. Whilst we feel confident about the multi-year outlook, it's more difficult to know what the future holds in the short-term. History suggests that strong NAV growth of the type we have witnessed in the last six months is usually followed by a period of more modest returns.

## Performance

In the financial year to 28 February 2014, the NAV increased from 95.69p to 120.24p. Dividends paid totalled 5 pence a share, giving investors a total return of 29.55 pence per share, which translates to a gain of 30.9%. During the same period, the FTSE 100 gained 7.1% and the FTSE AIM All-Share gained 20.5%.

The qualifying investments made a net contribution of 25.23 pence per share to the NAV, with the non-qualifying portfolio adding a further 6.48 pence per share. The balance was a mixture of costs, income and small gains made through share buy backs. 34 out of the 47 qualifying investments gained value, 3 were unchanged and 10 fell in value. (As at 28 February 2014, 44 qualifying investments remained). Intercede (189.5%, +2.45 pence per share) was the top performer among the qualifying investments following a series of contract wins that started in April and continued through the Summer and Autumn. Other stocks that made a significant contribution included TrakM8 (163.1%, +1.88 pence per share), Quixant (215.2%, +1.86 pence per share), Fusionex (172.9%, +1.38 pence per share), Mexican Grill (37.5%, +1.30 pence per share) and Omega Diagnostics (129.6%, +1.21 pence per share).

The biggest losses within the period came from Sphere Medical (-62.1%, -0.48 pence per share) and Fulcrum Utility (-48.1%, -0.47 pence per share). Sphere Medical announced a strong collaboration agreement with Johnson & Johnson to take their next generation arterial blood analyser through to commercial launch. However, the deal required a further capital raise to fund the working capital required to support the extended timetable and further development programme proposed by Johnson & Johnson. Fulcrum Utility reported weak trading in 2012, which in turn put pressure on their Balance Sheet. A change of management and the subsequent disposal of their gas connections business has relieved the pressure and brought a renewed focus on operation delivery and financial discipline. We expect this to feed through to significantly better financial results as activity in the construction sector continues to improve.

## Qualifying Investments

We made 20 qualifying investments in the financial year, which included seven additional investments into existing qualifying companies, six secondary placings into listed companies, five IPOs, one pre-IPO (now listed) and two investments into private companies. We made three complete exits and two partial disposals from within the qualifying portfolio as we continued to adjust the profile of the fund to reduce the influence of the biggest stocks, increase the weighting to profitable companies and exit underperforming investments. The VCT finished the period with 44 qualifying investments. The VCT is comfortably through the HMRC defined investment test and ended the period at 88.97% invested as measured by the HMRC investment test.

The seven companies that already featured within the qualifying portfolio were Porta Communications, an international media relations and market intelligence company that raised £4.0m to further fund its acquisition strategy; Reneuron, a stem cell research company that raised £25.0m of new equity alongside a £7.0m Welsh Government grant; Plastics Capital, a specialists plastics products manufacturer that raised £2.7m to fund an acquisition in China; Corac, an engineering company that produces compression, atmosphere management and heat exchange systems, that raised £11.0m to fund the ongoing development of its compressor technology; Flowgroup, which develops and commercialises energy efficient products and supplies energy to the UK residential market, raised £17.8m for working capital as it moves towards commercial launch of their boiler later this year; Paragon Entertainment, a visitor attraction

design, production and fit-out business, that raised £0.8m to address a working capital requirement in one of its growing divisions, and Outsourcery, a cloud service provider that raised £4.2m to fund the company's investment into a highly secure cloud service platform suitable for use by Government Departments.

The qualifying investments in previously listed companies included Imaginatik, an innovation management software and consultancy firm that raised £1.3m to strengthen the balance sheet and provide additional working capital; Sanderson, an IT and software services provider that raised £3.5m to help fund an acquisition; TrakM8, a global telematics provider for automotive applications that raised £2.0m to fund an acquisition; Belvoir, the residential letting franchise operator that raised £5.4m to fund the expansion of its franchisee programme; Ilika, the high throughput technology processor in energy sectors that raised £2.9m to support the development of their solid-state battery technology; and Proxama, the mobile wallet, m-marketing and m-commerce specialist that raised £8.6m for working capital.

The five IPOs included Quixant, a provider of specialised computing platforms for gaming and slot machine applications which raised £3.9m; Everyman Media Group, the niche cinema operator which raised £8.1m; Kalibrate, a petrol stations price and planning optimiser which raised £13.1m; MoPowered, a mobile commerce applications and solutions provider which raised £3.6m; and MartinCo, a national letting estate agent that raised £10.6m.

The remaining two investments were in Nektan, a private company that develops software for the mobile cash gaming solutions that raised £5.3m through a private round and Get Lenses, the leading online retailer of UK contact lenses that raised £5.0m through a private round.

We made three complete exits and two partial disposals from within the qualifying portfolio as we continued to adjust the profile of the fund to reduce the influence of the biggest stocks, increase the weighting to profitable companies and exit underperforming investments.

#### **Portfolio Structure**

The VCT is comfortably through the HMRC defined investment test and ended the period at 88.97% invested as measured by the HMRC investment test. By market value, the VCT had a 62.5% weighting to qualifying investments.

The allocation to non-qualifying equity investments increased from 6.0% to 9.4%. We also increased the investment in the Marlborough Special Situations Fund from 3.6% to 8.2% of the net assets. In both cases, this reflected our optimism about the market outlook and our wish to deploy some of the proceeds of the current offer. Fixed income as a percentage of the fund fell from 6.3% down to 4.2%. Cash ended the year at 16.3%, virtually unchanged over the period. This, however, masked a significant swing over the course of the year, with the cash level falling as low as 5.5% in November 2013 as we first invested the proceeds of the previous offer before receiving the proceeds of the current offer.

#### **Dividends**

There were two dividends paid during the year totalling 5 pence per share.

#### **Post Period Update**

Deal flow has remained strong since the period end as the strong flow of IPOs has allowed us to make another six qualifying investments at a cost of £0.6m.

Date: 23 May 2014

For further information please contact:

Stuart Brookes

Company Secretary

Hargreave Hale AIM VCT 2 plc

01253 754740

# INVESTMENT PORTFOLIO SUMMARY

## Ordinary Share Fund

As at 28 February 2014

Qualifying investments	Book Cost £000	Valuation £000	Valuation %
Mexican Grill Ltd (A Preference Shares)	277	594	4.22
Advanced Computer Software Group plc	68	499	3.55
Intercede Group plc	91	480	3.41
TrakM8 Holdings plc	160	421	3.00
WANDisco plc	53	395	2.80
Quixant plc	120	378	2.69
Flowgroup plc	268	366	2.60
Ideagen plc	100	361	2.57
EKF Diagnostic Holdings plc	150	360	2.56
Hardide plc	77	357	2.54
Mycelx Technologies Corporation plc	150	343	2.44
Lidco Group plc	146	313	2.23
Porta Communications plc	200	310	2.20
Fusionex International plc	69	302	2.15
Omega Diagnostics Group plc	144	297	2.11
Outsourcery Group Ltd	300	291	2.07
AnimalCare Group Ltd	100	276	1.97
Lombard Risk Management plc	92	276	1.96
TLA Worldwide plc	150	270	1.92
Plastics Capital plc	202	246	1.75
Microsaic Systems plc	173	238	1.69
Reneuron Group plc	179	220	1.56
Sanderson Group plc	200	218	1.55
Electric Word plc	185	217	1.54
Kalibrate Technologies plc	161	196	1.39
Paragon Entertainment Ltd	200	184	1.31
Proxama plc	63	183	1.30
Everyman Media Group plc	172	179	1.28
Clean Air Power Ltd	150	173	1.23
Belvoir Lettings plc	150	158	1.13
MoPowered Group plc	150	147	1.05
MartinCo plc	113	143	1.02
Tangent Communications plc	150	135	0.96
GetLenses plc	132	132	0.94
Imaginatik plc	100	128	0.91
Corac Group plc	125	108	0.77
Nektan Ltd	70	84	0.59
DP Poland plc	77	80	0.57
Tristel plc	80	78	0.55
Ilika plc	68	75	0.54
Fulcrum Utility Services Ltd	100	70	0.50
Mexican Grill Ltd (Ordinary Shares)	31	66	0.47
Sphere Medical Holdings plc	150	41	0.29
Corfe Energy Ltd	25	25	0.18
Brigantes Energy Ltd	25	13	0.09
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Total qualifying investments	5,946	10,426	74.15

## INVESTMENT PORTFOLIO SUMMARY (continued)

Non-Qualifying investments	Book Cost £000	Valuation £000	Valuation %
Marlborough Special Situations Fund	1,194	1,368	9.73
Total – Unit Trusts	1,194	1,368	9.73
Nationwide Building Society 7.971% 2049	247	260	1.85
Scottish Amicable Finance 8.5% 2049	154	170	1.21
Petrobras International Finance 6.25% 2026	148	149	1.06
UK Treasury 2.5% 2024	121	114	0.81
Total – Corporate bonds	670	693	4.93
Advanced Computer Software Group plc	162	250	1.77
Egdon Resources plc	140	196	1.40
Vertu Motors plc	76	126	0.90
Hydrodec Group plc	101	125	0.88
Restore plc	91	121	0.86
Amerisur Resources plc	93	119	0.84
Daily Mail & General Trust	80	105	0.75
DX plc	72	93	0.66
Idox plc	69	81	0.57
Telford Homes plc	49	72	0.51
Tarsus Group plc	72	69	0.49
Reneuron Group plc	41	57	0.41
Plethora Solutions Holdings plc	39	39	0.28
Dunelm Group plc	33	35	0.25
Genagro Ltd	22	27	0.19
HELIUS Energy plc	20	21	0.15
Optimal Payments plc	8	11	0.08
Mycelx Technologies Corporation plc	8	10	0.07
Westmount Energy Ltd	9	9	0.06
Mexican Grill Ltd (A Preference Shares)	3	5	0.04
Microsaic Systems plc	1	1	0.01
TLA Worldwide plc	1	1	0.01
WANDisco plc	1	1	0.01
Paragon Entertainment Ltd	1	0	0
Total – non-qualifying equities	1,192	1,574	11.19
Total – non-qualifying investments	3,056	3,635	25.85
<b>Total investments</b>	<b>9,002</b>	<b>14,061</b>	<b>100.00</b>

The majority of investments held within the portfolio are listed and/or headquartered in the UK with the exception of the following:

Clean Air Power Ltd: UK listed, headquartered in Hamilton, Bermuda.

Fulcrum Utility Services Ltd: UK listed but registered in Cayman Islands. Headquartered in Sheffield.

Fusionex International Plc: UK listed, registered in Jersey but headquartered in Selangor, Malaysia.

Genagro Ltd: Not listed but headquartered in Jersey.

MyCelx Technologies Corporation plc: UK listed but headquartered in Georgia, USA.

Nektan Ltd: A non-listed company and headquartered in Gibraltar.

Petrobras International Finance: Listed in Sao Paulo and New York but headquartered in Brazil.

Westmount Energy Ltd: UK listed but registered and headquartered in Jersey.

WANDisco plc: UK listed, registered and domiciled in St Helier, Jersey but headquartered in Sheffield.

# TOP TEN INVESTMENTS

As at 28 February 2014 (by Market Value)

The top 10 equity investments are shown below; each is valued by reference to the bid price. Forecasts, where given, are drawn from a combination of broker research and/or Bloomberg consensus forecasts and exclude amortisation, share based payments and exceptional items. Forecasts are in relation to a period end for which the company results are yet to be released. The net cash values are drawn from published accounts in most cases.

<b>Advanced Computer Software Group plc</b>			<b>124.8p</b>
Investment Date	July 2008	Forecasts for year to	February 2014
Equity Held	0.14%	Turnover (£'000)	199,600
Av Purchase Price	33.4p	Profit Before Tax (£'000)	36,100
Cost (£'000)	230	Reported Net Cash (£'000)	-49,500
Valuation (£'000)	749		

Advanced Computer Software Group PLC provides specialised software and services. The Company's portfolio for the health and care sector includes IT management and analytics systems for out-of-hospital applications covering urgent and unplanned care, district nursing, hospices, residential care homes, telehealth, as well as mobile information systems for community carers.

<b>EKF Diagnostic Holdings plc</b>			<b>36.0p</b>
Investment Date	June 2010	Forecasts for year to	December 2014
Equity Held	0.37%	Turnover (£'000)	46,700
Av Purchase Price	15.0p	Profit Before Tax (£'000)	5,700
Cost (£'000)	150	Estimated Net Cash (£'000)	Est. 9,000
Valuation (£'000)	360		

EKF Diagnostics Holdings PLC develops and manufactures medical diagnostic products. The Company produces analysers for glucose, lactate, hemoglobin, hematocrit, and HbA1c. It is also developing molecular diagnostics for personalised medicines. EKF markets its products to laboratories, universities, hospitals and blood donor centres; and for industrial use or in point-of-care testing.

<b>Flowgroup plc</b>			<b>29.0p</b>
Investment Date	July 2007	Forecasts for year to	December 2014
Equity Held	0.47%	Turnover (£'000)	33,200
Av Purchase Price	21.3p	Profit Before Tax (£'000)	-7,900
Cost (£'000)	268	Reported Net Cash (£'000)	17,400
Valuation (£'000)	366		

Founded in 1997, Flowgroup specialises in developing and commercialising products to meet the need for alternative power generation technologies to increase efficiency and reduce the environmental impact of energy consumption. Through Flow Energy, the Company is developing a microCHP boiler for launch into the UK residential market in 2014 and supplying gas and electricity into the UK domestic energy market. Its second subsidiary, Pnu Power, is developing and supplying compressed air back up power systems for use in a range of commercial applications.

<b>Hardide plc</b>			<b>1.4p</b>
Investment Date	June 2009	Forecasts for year to	September 2014
Equity Held	2.49%	Turnover (£'000)	3,300
Av Purchase Price	0.3p	Profit Before Tax (£'000)	0
Cost (£'000)	77	Reported Net Cash (£'000)	300
Valuation (£'000)	357		

Hardide manufactures and applies tungsten carbide-based coatings to a wide range of engineering components. The patented technology is proven to offer cost savings through reduced downtime and extended part life. Customers include leading companies operating in oil and gas exploration and production, valve and pump manufacturing, general engineering and aerospace.

<b>Ideagen plc</b>			<b>32.50p</b>
Investment Date	March 2011	Forecasts for year to	April 2014
Equity Held	0.91%	Turnover (£'000)	9,000
Av Purchase Price	9.0p	Profit Before Tax (£'000)	2,600
Cost (£'000)	100	Reported Net Cash (£'000)	5,300
Valuation (£'000)	361		

Ideagen is a software development business specialising in Information Management solutions for organisations that generally operate within industries that are subject to regulatory standards. As authors of an excellent portfolio of software products, the group is able to provide complete content lifecycle solutions that enable organisations to meet their regulatory and quality compliance standards, helping them to reduce costs and improve efficiency.

<b>Intercede Group plc</b>			<b>174.0p</b>
Investment Date	May 2007	Forecasts for year to	March 2014
Equity Held	0.57%	Turnover (£'000)	8,800
Av Purchase Price	33.0p	Profit Before Tax (£'000)	0
Cost (£'000)	91	Reported Net Cash (£'000)	7,200
Valuation (£'000)	480		

Intercede is the producer of the MyID® Identity and Credential Management System. MyID is the only IDCMS software product that enables organisations to easily and securely manage the identities of people and their associated identity credentials within a single, integrated, workflow driven platform. This includes enabling and managing: secure registration, biometric capture, application vetting and approval through to smart card personalisation, issuance and management.

<b>Mexican Grill Ltd</b>			<b>4400p</b>
Investment Date	October 2009	Actuals for year to	December 2013
Equity Held	4.74%	Turnover (£'000)	9,937
Av Purchase Price	2053.0p	Profit Before Tax (£'000)	-49
Cost (£'000)	311	Reported Net Cash (£'000)	1,234
Valuation (£'000)	665		

Mexican Grill, is a private company that operates 15 fast casual California-Mexican restaurants that provide fresh, made to order cuisine for eat in or take-away, making it amongst the largest chains within its niche. With the exception of the most recent store openings, each of the sites is profitable, most notably Canary Wharf & Westfield Stratford. The management team expect to open at least 5 further sites by the end of 2014.



<b>Quixant plc</b>			<b>145p</b>
Investment Date	May 2013	Forecasts for year to	December 2014
Equity Held	0.40%	Turnover (\$'000)	31,500
Av Purchase Price	46.0p	Profit Before Tax (\$'000)	7,100
Cost (£'000)	120	Reported Net Cash (\$'000)	4,900
Valuation (£'000)	378		

Founded in 2005, Quixant designs and manufactures complete advanced hardware and software solutions for the pay-for-play gaming and slot machine industry. Quixant's specialised products provide an all-in-one solution, based on PC technology but with additional hardware features and operating software developed specifically to address the requirements of the gaming industry.

<b>Trakm8 Holdings plc</b>			<b>58.0p</b>
Investment Date	October 2013	Forecasts for year to	March 2014
Equity Held	2.52%	Turnover (£'000)	9,200
Av Purchase Price	22.0p	Profit Before Tax (£'000)	800
Cost (£'000)	160	Reported Net Cash (£'000)	600
Valuation (£'000)	421		

Trakm8 manufactures and markets vehicle tracking products. The Company's equipment is used to monitor a vehicle's location. The UK Telematics opportunity is quickly maturing and there is now a clear opportunity for high quality suppliers like Trakm8 to take leadership of this fragmented marketplace. A growing force in the global telematics industry, Trakm8 has steadily broadened both its product range and customer base.

<b>WANDisco plc</b>			<b>1315p</b>
Investment Date	May 2012	Forecasts for year to	December 2014
Equity Held	0.13%	Turnover (\$'000)	13,600
Av Purchase Price	180.0p	Profit Before Tax (\$'000)	-20,600
Cost (£'000)	54	Reported Net Cash (\$'000)	25,670
Valuation (£'000)	396		

WANDisco stands for Wide Area Network Distributed Computing. Its patent pending technology enables software developers in distributed locations to work simultaneously. WANDisco's customers include a host of Fortune 1000 companies such as Hewlett Packard, Intel, John Deere, European Southern Observatory, Barclays Capital, Walmart, GE, Cisco and Nokia.

## Co-Investment

As at 28 February 2014, other funds managed by Hargreave Hale Limited were also invested in the following investments – Advanced Computer Software Group plc, Amerisur Resources plc, AnimalCare Group plc, Belvoir Lettings plc, Clean Air Power Ltd, Corac Group plc, DP Poland plc, Dunelm Group plc, DX plc, Egdon Resources plc, EKF Diagnostic Holdings plc, Everyman Media Group plc, Flowgroup plc, Fulcrum Utility Services Ltd, Fusionex International plc, Genagro Ltd, HELIUS Energy plc, Ideagen plc, Idox plc, Ilika plc, Imaginatik plc, Intercede Group plc, Kalibrate Technologies plc, Lidco Group plc, Lombard Risk Management plc, MartinCo plc, Microsaic Systems plc, MoPowered Group plc, Mycelx Technologies Corporation plc, Nektan Ltd, Optimal Payments plc, Outsourcery Group Ltd, Plastics Capital plc, Plethora Solutions Holdings plc, Porta Communications plc, Proxama plc, Quixant plc, Reneuron Group plc, Restore plc, Sanderson Group plc, Sphere Medical Holdings plc, Tangent Communications plc, Tarsus group plc, TrakM8 Holdings plc, Vertu Motors plc, WANDisco plc and Westmount Energy Ltd.



# DIRECTORS' REPORT

## For the year end 28 February 2014

The Directors present their report together with the audited financial statements of the Company for the year from 1 March 2013 to 28 February 2014.

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 2014 was strong with no debt or gearing.

### Revenue and Dividends

The revenue loss after tax for the year amounted to £185,984 (2013 – £176,238 loss). An interim ordinary dividend of 2 pence per Ordinary share was paid on 8 November 2013 (2012 – 2 pence per share). The proposed final dividend of 4 pence per share for the year ended 28 February 2014 is due to be paid on 10 July 2014.

### Share Valuation

On 28 February 2014, the bid-market price and the net asset value per ordinary share were 113.00 pence and 120.24 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 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 provides to the Company, administration services, custody services, company secretarial services and directorship of Giles Hargreave.

### Capital Structure

The Company's capital structure is summarised in Note 1 to the accounts.

### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in Note 2 to the Notice of AGM on page 53.

### 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 2014, there were 3 holdings of 3% and over of the Company's ordinary share capital. These holdings related to Hargreave Hale Nominees Limited with 9.56%, Hargreaves Lansdown Nominees Limited with 3.16% and HSBC Global Custody Nominee (UK) Limited with 3.15%.

### 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	
	2014	2013
David Hurst-Brown	45,836	45,836
Giles Hargreave	164,151	141,487
Philip Cammerman	8,190	3,060

There have been no changes to the beneficial interests of Directors between 28 February 2014 and the date of this report.

### Share Buybacks

During the year, the Company repurchased 438,700 ordinary shares (nominal value £4,387) at a cost of £414,176. The shares repurchased represent 5.4% of ordinary shares in issue on 1 March 2013. All shares repurchased were cancelled.

As detailed in the Circular published on 9 October 2013 the Directors believe it is in the Shareholders best interest to target a reduced buyback discount. As a guide, and subject to the Boards' discretion and providing that, in the opinion of the Boards, there is adequate surplus cash available, the Company will consider buying back shares at a 5% discount to the last published Net Asset Value. The target of a 5% buyback discount is non-binding and at the Board's discretion.

### Joint Offer for Subscription

The joint offer for subscription (together with Hargreave Hale AIM VCT 1) closed on 25 September 2013 and resulted in funds being received for Hargreave Hale AIM VCT 2 of £2.74 million and the issue of 2.82 million shares.

### New Joint Offer for Subscription of Ordinary Shares

The Directors of the Company announced on 1 November 2013 the launch of an offer for subscription for new shares in both VCT's to raise up to £10 million into each company. The Offer was approved by shareholders of the Company at a General Meeting on 31 October 2013 and is open to both new and existing shareholders.

Since its launch on 1 November 2013 the offer has resulted in funds being received of £4.28 million and the issue of 3.88 million shares. The Offer will close at 12pm on 31 October 2014 unless closed prior to that date if the maximum subscription has been reached before then. Since the year end a further £1.97m has been received under the Offer, bringing the total raised to £6.25m.

### Post Balance Sheet Events

Post Balance Sheet Events are disclosed in Note 19 on page 47 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 8 days (2013 – 8 days).

### **Charitable and Political Donations**

The Company made no charitable or political donations in the year (2013 - 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.

### **Corporate Governance**

The statement on corporate governance set out on pages 23 to 27 is included in the directors' report by reference.

### **Annual General Meeting**

The Annual General Meeting will be held at Accurist House, 44 Baker Street, London, W1U 7AL at 10 am on 4 July 2014. The notice of the Annual General Meeting is at the end of this document.

The proxy form enclosed with this Annual Report and Financial Statements permits shareholders to disclose votes 'for', 'against', and 'withheld'. A 'vote withheld' is not a vote in law and will not be counted in the proportion of the votes for and against the resolution.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting for which shareholder approval is required in order to comply either with the Companies Act 2006 or the Listing Rules of the Financial Conduct Authority.

### **Power to allot shares**

Ordinary resolution number 8 will request the authority to allot up to an aggregate nominal amount of £100,000. This resolution replaces the authority given to the Directors at the General Meeting on 31 October 2013. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed, or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

### **Disapplication of pre-emption rights**

Special resolution number 9 will request the authority for the Directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. The authority relates to a maximum aggregate of £100,000 of the nominal value of the share capital.

This resolution replaces the authority given to the Directors at the General Meeting on 31 October 2013. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

### **Purchase of own shares**

Special resolution number 10 will request the authority to purchase approximately 14.99 per cent. of the Company's issued Ordinary share capital at, or between, the minimum and maximum prices specified in resolution 10. Shares bought back under this authority may be cancelled and up to 10 per cent. may be held in treasury.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

This resolution would renew the 2013 authority, which was on similar terms. During the financial year under review, the Company purchased 438,700 Ordinary shares which were then cancelled.

The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed, or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

**Recommendation**

The Board believes that the passing of the resolutions above are in the best interests of the Company and its shareholders as a whole, and unanimously recommends that you vote in favour of these resolutions, as the Directors intend to do in respect of their own beneficial shareholdings of 218,177 shares.

By order of the Board

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

Registered office:  
Hargreave Hale AIM VCT2 plc,  
Accurist House  
44 Baker Street  
London  
W1U 7AL

Date: 23 May 2014

# DIRECTORS' REMUNERATION REPORT

For the year ended 28 February 2014

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 auditor's opinion is included in their report on pages 29 to 31.

## Remuneration Responsibilities

The remuneration committee presently consists of solely non – executive directors. All are considered independent with the exception of Mr Giles Hargreave who is Chairman of Hargreave Hale Limited and is not therefore independent. The committee has been established by the Board to set Remuneration policy and to deal with all matters relating to Directors remuneration and reporting thereon. It has clear Terms of Reference established by the Board.

## 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.

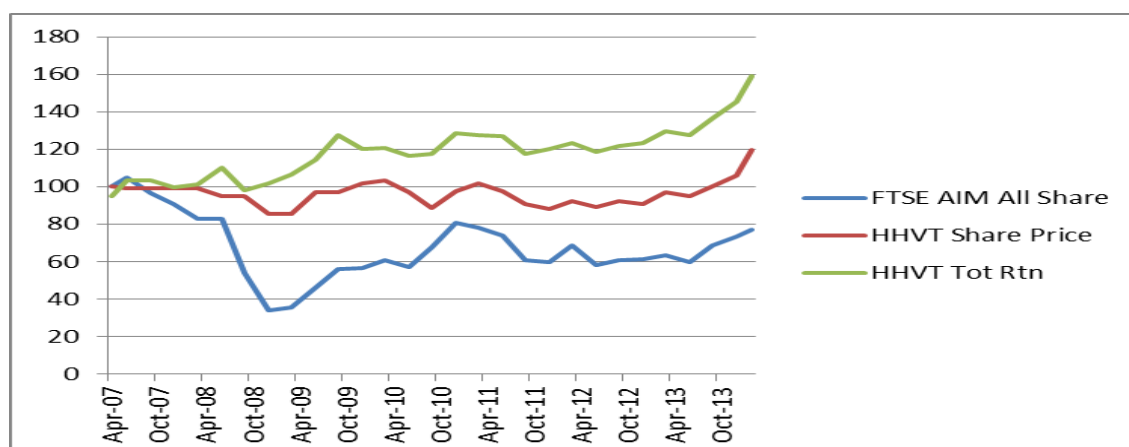
Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum permitted by the Company's Articles of Association is £200,000 per annum. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or 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. In accordance with listing rule 15.2.13A Giles Hargreave shall retire and be subject to re-election on an annual basis as he is a Director of the VCT and the manager. 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 2014 (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 half yearly intervals. 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).



Shareholders may be aware that new rules for the reporting of Directors' remuneration came into effect on 1 October 2013. These now require companies to ask shareholders to approve the annual remuneration paid to directors every year and to formally approve the Directors Remuneration Policy on a yearly or on a three yearly basis. Any change to the Directors Remuneration Policy will require shareholder approval. The vote on the Directors remuneration report is, as previously an advisory note, whilst the vote on the Directors remuneration policy is a binding one. Accordingly ordinary resolutions will be put to shareholders at the forthcoming Annual General Meeting to be held 4 July 2014, to receive and adopt the Directors remuneration report and to receive and approve the Directors remuneration policy.

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

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

	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	Fees/Salaries	Benefits in Kind	Total	Fees/Salaries	Benefits in Kind	Total
	£	£	£	£	£	£
David Hurst-Brown (Chairman)	18,000	-	18,000	18,000	-	18,000
Giles Hargreave	15,000	-	15,000	15,000	-	15,000
Philip Cammerman	15,000	-	15,000	15,000	-	15,000
<b>Total</b>	<b>48,000</b>	<b>-</b>	<b>48,000</b>	<b>48,000</b>	<b>-</b>	<b>48,000</b>

The Directors fees have not increased in the year.

#### **Taxable Benefits (audited)**

The Directors who served during the year received no taxable benefits in the year.

#### **Variable Pay (audited)**

The Directors who served during the year received no variable pay relating to the performance of the Company in the year. The Company does not adopt a policy rewarding directors where vesting becomes effective over multiple reporting periods.

#### **Pension Benefits (audited)**

The Directors who served during the year received no pension benefits in the year.

#### **Approval**

The Directors' Remuneration Report on pages 21 and 22 was approved by the Board of Directors on 23 May 2014 and will be further subject to a binding vote at the AGM being held on the 4 July 2014 and every year thereafter.

Signed on behalf of the Board of Directors

**David Hurst-Brown**  
Chairman

23 May 2014

# CORPORATE GOVERNANCE

## Director's Statement of Compliance with the UK Corporate Governance 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 Giles Hargreave. Giles Hargreave is Chairman 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 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 also 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.

Giles Hargreave 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 officer's 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 21 and 22.

#### **Accountability and Audit**

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 28. The Auditor's Report appears on pages 29 to 31.

#### **Performance Appraisal**

The Directors recognise the importance of the Code (Code B.6) 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.

The Directors complete an Annual Board Evaluation Questionnaire for each Director 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.

The Committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes post review. The terms of reference are available on the Company's website <http://www.hargreave-hale.co.uk/assets/fund-management/venture-capital-trusts/hargreave-hale-aim-vct-two/Reports/Audit-Committee-Terms-of-Reference-VCT2.pdf> and by request from the Company Secretary. The Audit Committee ordinarily meets twice a year and has direct access to BDO LLP, the Company's external auditor. The Board considers that the members of the Committee are both independent and collectively have the skills and experience to discharge their duties effectively, and that the Chairman of the Committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

During the year ended 28 February 2014 the Audit Committee discharged its responsibilities by:

- Reviewing the Company's draft annual and half yearly results statements, interim managers statements, and the proposed fair value of investments as determined by the Investment Management Company;
- Reviewing the Company's accounting policies;
- Reviewing the Audit Committee report on the financial statements;
- Ongoing review of the internal controls within the Investment Management Company and assessing the effectiveness of those controls in minimising the impact of key risks;
- Reviewing the Company's on-going compliance procedures and effectiveness of those procedures in minimising the impact of key risks;
- Reviewing and approving the external auditors terms of engagement, remuneration and independence; and
- Recommending to the Board and shareholders the ongoing appointment of BDO LLP.

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

- Compliance with HM Revenue & Customs to maintain the Company's VCT status
- Fluctuations in the value of investments
- Valuation of unquoted investments.

These issues were discussed with the Investment Manager and the auditor at the pre- year end audit planning meeting and at the Board meeting pre sign off of the financial statements, the Committee concluded:

- **Venture Capital status;** the Investment Manager confirmed to the Audit Committee that the conditions for maintaining the Company's status had been complied with throughout the year. The Company's status is also reviewed by the Company's tax advisors Pricewaterhouse Coopers LLP and further half yearly reconciliations are carried out. The committee reviewed the reports and were satisfied with the reports produced.
- **Fluctuations in the value of investments;** the Committee reviewed the Company's portfolio and were satisfied that the maximum exposure to a single qualifying investment was less than 15% of net assets.
- **Valuation of unquoted investments;** the Investment Manager and the auditor confirmed to the Audit Committee that the basis of valuation for unquoted companies was consistent with the prior year. The Audit Committee reviewed the estimates and judgements made by the investment manager and were satisfied with the valuations proposed.

The Investment Manager and the Company's auditor confirmed to the Audit Committee that they were not aware of any material misstatements to the financial statements. Having reviewed the financial statements and the report produced by the auditor, the Audit Committee were satisfied that key areas of risks and judgement were appropriately addressed.

As part of the review of auditor effectiveness and independence, BDO LLP confirmed it is independent to the Company and continues to comply with applicable audit standards. In accordance with professional guidelines, the audit partner is rotated every 5 years the previous partner had served the maximum 5 years and was replaced by a new audit partner. As part of the review of auditor effectiveness the Committee had met with the successor and were satisfied the auditor held the necessary experience and skills to perform the required duties.

Having carried out its review the Audit Committee is satisfied BDO LLP have remained independent and effective in carrying out its responsibilities up to the date of signing this report and that it would not be appropriate to put the audit appointment out to tender at the present time.

### Capital Structure

The Company's capital structure is summarised in Note 1 to the accounts.

### 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, however cheques must be signed by David Hurst-Brown or Philip Cammerman and either Giles Hargreave or Stuart Brookes to ensure payments are authorised by one independent person 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.

### Auditor's Non-Audit Service

During the year no fees were paid for non-audit services (2013 - £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.

	<b>Ordinary Business</b>	
	No of Board Meetings Held	Attended
David Hurst-Brown (Chairman)	5	4
Giles Hargreave	5	5
Philip Cammerman	5	5
	<b>Fundraising and Share Allotments</b>	
	No of Board Meetings Held	Attended
David Hurst-Brown (Chairman)	22	19
Giles Hargreave	22	19
Philip Cammerman	22	15

## Attendance at Audit Committee Meetings

	No of Audit Meetings	
	Held	Attended
Philip Cammerman (Chairman)	1	1
David Hurst-Brown	1	1

## 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 <http://www.hargreave-hale.co.uk/fund-management/venture-capital-trusts/hargreave-hale-aim-vct-2/share-price-and-nav/>. Shareholders have the opportunity to communicate directly with the Board at the AGM. All shareholders are encouraged to attend the AGM.

## Amendments of articles of association

The Company's articles of association may be amended by the members of the Company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

## 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: 23 May 2014

# 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 DTR4

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 AUDITOR'S 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 2014 which comprise the income statement, the balance sheet, the cash flow statement, the reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Our assessment of risks of material misstatement

We identified the following risks that we consider to have had the greatest impact on our audit strategy and scope:

- The assessment of the carrying value of investments, particularly unquoted investments. This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the funds, derived using those valuations.

We challenged the assumptions inherent in the valuation of unquoted investments by comparing inputs used in the valuation models of these investments to multiples which are derived from stock market trading in shares in entities that are considered to be comparable to the unquoted investments held by the reporting entity. Where possible we have reviewed the recent published trading reports for the unquoted investments. Where a recent transaction is used to value any unquoted investments, we obtained an understanding of the circumstances surrounding those transactions and whether they were considered to be on an arms-length basis. We have also reviewed disclosures made in the financial statements.

We also considered the controls over the pricing of quoted investments and tested the pricing of quoted investments to independent sources.

- Completeness of expenditure, in view of industry practice to compare the performance of funds, partly based on the level of their on-going charges, as well as the existence of an expense cap on the management fee which could increase the risk of management override in the recognition of costs. We agreed recurring costs to expectations set based on prior years amended for known changes and agreement to invoices on a sample basis. We also confirmed the extent to which ad-hoc costs incurred on the fundraising represented obligations at the end of February 2014 and we confirmed the appropriateness of the classification of costs of the share buy-back and share offer being charged to reserves.

The Audit Committee's consideration of these key issues is set out on page 25.

### Purpose of this report

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

### Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users, that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements.

We determined materiality for the financial statements as a whole to be £333,000. In determining this, we based our assessment on a level of 2% of net assets which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to all investments. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, namely £249,750. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of £333,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net revenue returns of the company. We determined materiality for this area to be £3,900.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £6,660, as well as differences below that threshold affecting the net revenue returns or that, in our view, warranted reporting on qualitative grounds.

### **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;
- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 23 to 27 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

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

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

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

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

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

- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 27 in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and

We have nothing to report in respect of these matters.

Michelle Carroll (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

23 May 2014

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

# INCOME STATEMENT

For the year ended 28 February 2014

	Note	Revenue £000	Capital £000	Total £000
Net profit on investments held at fair value through profit or loss	7	-	3,737	3,737
Income	2	83	-	83
		83	3,737	3,820
Management fee	3	(41)	(124)	(165)
Other expenses	4	(228)	-	(228)
		(269)	(124)	(393)
(Loss)/Profit on ordinary activities before taxation		(186)	3,613	3,427
Taxation	5	-	-	-
(Loss)/Profit after taxation		(186)	3,613	3,427
(Loss)/Profit per share	6	(1.73)p	33.61p	31.88p

# INCOME STATEMENT

For the year ended 28 February 2013

	Note	Revenue £000	Capital £000	Total £000
Net loss on investments held at fair value through profit or loss	7	-	551	551
Income	2	62	-	62
		62	551	613
Management fee	3	(21)	(63)	(84)
Other expenses	4	(217)	-	(217)
		(238)	(63)	(301)
(Loss)/Profit on ordinary activities before taxation		(176)	488	312
Taxation	5	-	-	-
(Loss)/Profit after taxation		(176)	488	312
(Loss)/Profit per share	6	(2.28)p	6.31p	4.03p

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 2014

Company registration number: 5941261

(in England and Wales)

		2014	2013
	Note	£000	£000
<b>Fixed assets</b>			
Investments at fair value through profit or loss	7	14,061	6,503
		-----	-----
<b>Current assets</b>			
Debtors	9	24	20
Cash at bank	12	2,717	1,338
		-----	-----
		2,741	1,358
Creditors: amounts falling due within one year	10	(109)	(90)
		-----	-----
Net current assets		2,632	1,268
		-----	-----
Net assets		16,693	7,771
		-----	-----
<b>Capital and Reserves</b>			
Called up share capital	11	139	81
Special reserve		8,152	1,235
Capital reserve – realised		(108)	(22)
Capital reserve – unrealised		5,059	1,360
Revenue reserve		(768)	(582)
Share Premium		4,217	5,676
Capital redemption reserve		2	23
		-----	-----
Equity shareholders' funds		16,693	7,771
		-----	-----
Net asset value per share	13	120.24p	95.69p

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

**David Hurst-Brown**

Chairman

23 May 2014

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

# CASH FLOW STATEMENT

## For the year ending 28 February 2014

	Note	2014	2013
		£000	£000
Net cash (outflow) from operating activities	15	(295)	(215)
Net financial investment	15	(3,821)	(561)
Dividends paid	18	(507)	(389)
		-----	-----
Cash (outflow) before management of liquid resources		(4,623)	(1,165)
Financing	15	6,002	1,355
		-----	-----
Increase in cash	12	1,379	190
		-----	-----

# RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

## For the year ending 28 February 2014

Ordinary Shares	Share Capital	Capital Redemption Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Special Reserve	Share Premium	Revenue Reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 March 2013	81	23	(22)	1,360	1,235	5,676	(582)	7,771
Share buybacks	(4)	4			(414)			(414)
Subscriptions	62					6,354		6,416
Equity dividends paid (Note 18)					(507)			(507)
Capital Reduction		(25)			7,838	(7,813)		0
Realised gain on investments			38					38
Unrealised gains on investments				3,699				3,699
Management fee charged to capital			(124)					(124)
Revenue loss after taxation for the period							(186)	(186)
Total profit/(loss) after taxation			(86)	3,699			(186)	3,427
	-----	-----	-----	-----	-----	-----	-----	-----
At 28 February 2014	139	2	(108)	5,059	8,152	4,217	(768)	16,693
	-----	-----	-----	-----	-----	-----	-----	-----

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 2013

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 2012	67	2	(46)	896	3,629	2,351	(406)	6,493
Share buybacks	(21)	21			(2,005)			(2,005)
Subscriptions	35					3,325		3,360
Equity dividends paid (Note 18)					(389)			(389)
Realised gain on investments			87					87
Unrealised gains on investments				464				464
Management fee charged to capital			(63)					(63)
Revenue loss after taxation for the period							(176)	(176)
Total loss after taxation			24	464			(176)	312
At 28 February 2013	81	23	(22)	1,360	1,235	5,676	(582)	7,771

# 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.

### **Functional Currency**

In accordance with FRS 23: 'The Effects of Changes in Foreign Currency', the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board has determined that sterling is the Company's functional currency. Sterling is also the currency in which these accounts are presented.

### **Repurchase of shares to hold in Treasury**

The cost of repurchasing shares into Treasury, including the related stamp duty and transaction costs is charged to capital reserves and dealt with in The Reconciliation of Movements in Shareholder's Funds. Share repurchase transactions are accounted for on a trade date basis. Where shares held in Treasury are subsequently cancelled, the nominal value of those shares is transferred out of share capital and into capital redemption reserve.

Should shares held in Treasury be reissued, the sale proceeds will be treated as a realised profit up to the amount of the purchase price of those shares and will be transferred to capital reserves. The excess of the sale proceeds over the purchase price will be transferred to share premium.

### **Capital Structure**

#### **Share Capital**

Ordinary shares are classed as equity. The ordinary shares in issue have a nominal value of one pence and carry one vote each. Substantial holdings in the Company are disclosed in the Directors report on page 17.

#### **Reserves**

A description of each of the reserves follows:

#### **Special Reserve**

Distributable reserve used to pay dividends and re-purchase shares under the buy back facility.

#### **Capital Reserve Realised**

Gains and losses on realisation of investments.

#### **Capital Reserve Unrealised**

Unrealised gains and losses on investments.

#### **Revenue Reserve**

Net revenue profits and losses of the Company.

#### **Share Premium**

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

#### **Capital Redemption Reserve**

This reserve is used for the cancellation of shares bought back under the buy back facility.

## 2. Income

	2014 £000	2013 £000
Income from listed investments:		
UK dividends	35	17
Unfranked investment income	42	38
	-----	-----
	77	55
Other income:		
Deposit interest	6	7
	-----	-----
Total income	83	62
	-----	-----

## 3. Management Fees

	2014 Revenue £000	2014 Capital £000	2014 Total £000	2013 Revenue £000	2013 Capital £000	2013 Total £000
Ordinary Shares						
Management fees	41	124	165	21	63	84
	-----	-----	-----	-----	-----	-----
	41	124	165	21	63	84
	-----	-----	-----	-----	-----	-----

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 1.5 percent. per annum of the net asset value of the Company, calculated and payable quarterly in arrears. At 28 February 2014, £53,800 (2013 – £35,930) was owed in respect of management fees. 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. No fees were waived between 1 March 2013 and 28 February 2014 and £19,759 were waived between 1 March 2012 and 28 February 2013 under the indemnity.

A performance related incentive fee will be payable at the rate of 20 percent. 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 2014 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 2014.

## 4. Other Expenses

	2014 £000	2013 £000
General expenses		
Administration Fee (HH)	35	35
Legal & Professional	25	11
Other expenses	103	108
Directors' Salaries and Fees	50	50
Auditor's remuneration		
- for audit services	15	13
	-----	-----
	228	217
	-----	-----

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 23% (2013: 24%)

	<b>2014</b>	<b>2013</b>
	<b>Total</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before taxation	3,427	312
UK Corporation Tax 23%	788	75
Effect of non taxable gains on investments	(860)	(132)
Effect of non taxable UK dividend income	(8)	(4)
Effect of current year losses carried forward	80	61
Current tax charge	-	-

Tax losses carried forward at the balance sheet date were £1,223,438 (2013 - £878,639).

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

	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>	<b>pence</b>
(Loss)/Profit per ordinary share: - basic	(1.73)	33.61	31.88	(2.28)	6.31	4.03

Revenue loss per ordinary share based on a net revenue loss on ordinary activities after taxation of £185,984 (2013 - £176,238) and on 10,750,728 (2013 7,745,745) 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 gain of £3,612,932 (2013 - £488,149) for the year and on 10,750,728 (2013 - 7,745,745) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

## 7. Investments

	<b>AIM Quoted Investments</b>		<b>Unquoted Investments</b>		<b>Other Quoted Investments</b>		<b>Total Investments</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments	11,055	5,015	2,313	1,002	693	486	14,061	6,503
Movement in year:								
Opening Valuation	5,015	4,068	1,002	554	486	769	6,503	5,391
Purchases at cost	4,046	1,459	1,398	400	301	-	5,745	1,859
Re-classification	150	-	(150)	-	-	-	-	-
Sales - proceeds	(1,540)	(987)	(311)	(3)	(73)	(308)	(1,924)	(1,298)
- realised gains/(losses)	34	73	9	-	(5)	14	38	87
Movements unrealised gains/(losses)	3,350	402	365	51	(16)	11	3,699	464
Closing valuation	11,055	5,015	2,313	1,002	693	486	14,061	6,503
Closing book cost	6,552	3,863	1,780	833	670	447	9,002	5,143
Closing unrealised	4,503	1,152	533	169	23	39	5,059	1,360
Realised gain/(loss) on sales	34	73	9	-	(5)	14	38	87
Unrealised gain/(loss) on investments	3,350	402	365	51	(16)	11	3,699	464
Gain/(loss) on investments	3,384	475	374	51	(21)	25	3,737	551

## 7. Investments (continued)

### 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 the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) 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
- (c) 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 arm's 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 valuation is tested against a peer group by comparing the EV/EBITDA ratios in the current financial year.

The peer group comparison has its limitations due to the limited number of listed comparators of an equivalent size and maturity.

### **Brigantes Energy Limited (unquoted)**

The fair value of the Investment was historically valued at cost. The valuation has now been marked down to 25p a share following the funder's (BP) unexpected decision to withdraw from the project, leaving the company with a potential cash deficit.

### **Corfe Energy (unquoted)**

The fair value of the Investment has been held at cost. Although the company is engaged in determining whether their respective assets hold oil and gas and whether extraction of these is commercially viable, there is no conclusive evidence to suggest this will be the case. As is prudent the fair value of the investment has been held at cost until further information is released.

### **Genagro Limited (unquoted)**

The fair value is drawn from the audited interim report released by Genagro, for the period ending 30 June 2013. Per the report, the net asset value per share was \$0.74 which being the last available information on the company has been used to value the investment.

### **Nektan (unquoted)**

The investment has been valued upwards to 144.5p, bringing the share price in line with a placing made by the company.

### **Get Lenses (unquoted)**

The fair value of the Investment has been based on the most recent transactions based on arms length basis. The investment was made on 30 January 2014.



## 7. Investments (continued)

	2014 Level 1 £'000	2014 Level 2 £'000	2014 Level 3 £'000	2014 Total £'000	2013 Level 1 £'000	2013 Level 2 £'000	2013 Level 3 £'000	2013 Total £'000
Investments	11,748	1,368	945	14,061	5,501	283	719	6,503

### Reconciliation of Level 2 Investments

	2014 £'000	2013 £'000
Balance Brought Forward	283	-
Re-Classification	-	-
Acquisitions	1,196	250
Sale Proceeds	(311)	-
Realised Gains	60	-
Movements Unrealised	140	33
Balance Carried Forward	1,368	283

### Reconciliation of Level 3 Investments

	2014 £'000	2013 £'000
Balance Brought Forward	719	554
Re-Classification *	(150)	-
Acquisitions	202	150
Sale Proceeds	-	(3)
Realised Losses**	(50)	-
Movements Unrealised	224	18
Balance Carried Forward	945	719

\* The Re-Classification transfer represents Outsourcery Group which is now listed.

\*\* Loss for TMO is fully realised in the current year. TMO was Impaired to £6k in the Prior year with the loss shown as an unrealised loss.

## 8. Significant Interests

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

Imaginatik	5.45%
Mexican Grill	4.7%

## 9. Debtors

	2014 £000	2013 £000
Prepayments and accrued income	24	20

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

	2014 £000	2013 £000
Trade Creditors	20	21
Accruals and deferred income	89	69
	109	90

## 11. Called up share capital

	2014 £000	2013 £000
Allotted, called-up and fully paid: 13,882,346 (2013 – 8,120,031) ordinary shares of 1p each	139	81

During the year 438,700 shares were purchased through the buy back facility at a cost of £414,176 of which all shares were cancelled.

### Offer for Subscription

During the year, the Company issued 2,320,784 ordinary shares (nominal value £23,208) in a joint offer for subscription which resulted in funds being received of £2,261,804 of which £67,854 was payable to Hargreave Hale to cover the cost of additional shares allotted from commission re-invested of £17,612 resulting in fees payable to Hargreave Hale of £50,242. The Offer for ordinary shares closed on 25 September 2013.

## 11. Called up share capital (continued)

### *New Joint Offer for Subscription of Ordinary Shares*

During the year, the Company issued 3,880,231 ordinary shares (nominal value £38,802) in an offer for subscription of ordinary shares which resulted in funds being received of £4,277,750 of which 3.5% (£149,721) was payable to Hargreave Hale to cover the cost of additional shares from commission re-invested of £77,146, resulting in fees payable to Hargreave Hale of £72,575. The Offer will close at 12pm on 31 October 2014 unless previously extended beyond this date, or earlier if the maximum subscription has been reached before then.

### *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.

### *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

	<b>At 1 March 2013</b>	<b>Cash Flows</b>	<b>At 28 February 2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank	1,338	1,379	2,717
	-----	-----	-----
	<b>At 1 March 2012</b>	<b>Cash Flows</b>	<b>At 28 February 2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank	1,148	190	1,338
	-----	-----	-----

## 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:

	<b>Net asset value per share</b>		<b>Net assets attributable</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>pence</b>	<b>pence</b>	<b>£000</b>	<b>£000</b>
Ordinary shares - Basic	120.24	95.69	16,693	7,771
	-----	-----	-----	-----

Net asset value per share is based on net assets at the year end and on 13,882,346 (2013 – 8,120,031) 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 (2013 - nil).

#### 15. Notes to the Cash Flow Statement

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

	2014	2013
	£000	£000
Total Profit on ordinary activities before taxation	3,427	312
Realised (gains) on investments	(38)	(87)
Unrealised (profit) on investments	(3,699)	(464)
(Increase)/Decrease in debtors	(4)	3
Increase in creditors	19	21
	-----	-----
Net cash (outflow) from operating activities	(295)	(215)
	-----	-----

##### (b) Analysis of cash flow for headings netted in cash flow statement

	2014	2013
	£000	£000
Net financial investment:		
Purchase of investments	(5,745)	(1,859)
Sale of investments	1,924	1,298
	-----	-----
	(3,821)	(561)
	-----	-----
	2014	2013
	£000	£000
Financing:		
Share Buybacks	(414)	(2,005)
Issue of Share Capital	6,416	3,360
	-----	-----
	6,002	1,355
	-----	-----

#### 16. Related party transactions

##### Hargreave Hale Limited

Mr G Hargreave, a director of the Company, is the Chairman 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 1.5% per annum of the net asset value of the Company, calculated and payable quarterly in arrears. Fees for the year are £164,812 (2013 - £84,055) as detailed in Note 3. Hargreave Hale is responsible for Administration, Company Secretary, Directorship and Custodian services and received fees of £77,000 (2013 - £77,000) in relation to these services. Of those fees, £60,217 (2013 - £42,347) 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 £19,759 were waived between 1 March 2012 and 28 February 2013 and no fees were waived between 1 March 2013 and 28 February 2014 under the indemnity.

### **Related party transactions (Continued)**

On the 31 October 2013 the Directors of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc announced the launch of a new offer for subscription of new shares in both VCT's.

#### *Offer for Subscription*

During the year, the Company issued 2,320,784 ordinary shares (nominal value £23,208) in a joint offer for subscription which resulted in funds being received of £2,261,804 of which £67,854 was payable to Hargreave Hale to cover the cost of additional shares allotted from commission re-invested of £17,612 resulting in fees payable to Hargreave Hale of £50,242. The Offer for ordinary shares closed on 25 September 2013.

#### *New Joint Offer for Subscription of Ordinary Shares*

During the year, the Company issued 3,880,231 ordinary shares (nominal value £38,802) in an offer for subscription of ordinary shares which resulted in funds being received of £4,277,750 of which 3.5% (£149,721) was payable to Hargreave Hale to cover the cost of additional shares from commission re-invested of £77,146, resulting in fees payable to Hargreave Hale of £72,575. The Offer will close at 12pm on 31 October 2014 unless previously extended beyond this date, or earlier if the maximum subscription has been reached before then.

Giles Hargreave is also the fund manager of the Marlborough Special Situations Fund.

## **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 23 to 27 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 Investment Manager's report on pages 4 and 10 respectively.

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

1. Equity – fair value 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 £2,716,870 (2013 - £1,338,206) which is classified as 'loans and receivables measured at amortised cost'. Financial liabilities consist of trade creditors and accruals of £109,485 (2013 - £90,505) 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 more 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.

## 17. Financial instruments (continued)

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

		<b>2014</b>	<b>2013</b>
		<b>£000</b>	<b>£000</b>
Equity	Fair value	13,368	6,017
Gilts/Bonds	Fair value	693	486
		-----	-----
		14,061	6,503
		-----	-----

A 10% increase or decrease in the investment portfolio would have a £1,406,100 (2013 - £650,300) impact on the profit and loss account.

### c) Currency risk

The Company is exposed to currency risk when disposing of investments in foreign currencies between the date the transaction was entered into and settlement. These transactions are kept as low as possible in order to minimise the impact of exposure.

### 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:

	<b>28 February 2014</b>			
	<b>Fixed</b>	<b>Variable</b>	<b>Non-Interest</b>	<b>Total</b>
	<b>Rate</b>	<b>Rate</b>	<b>Bearing</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments	693		13,368	14,061
Cash and cash Equivalents		2,717		2,717
Other currents assets and current liabilities (net)			(85)	(85)
	-----	-----	-----	-----
Net assets	693	2,717	13,283	16,693
	-----	-----	-----	-----

	<b>28 February 2013</b>			
	<b>Fixed</b>	<b>Variable</b>	<b>Non-Interest</b>	<b>Total</b>
	<b>Rate</b>	<b>Rate</b>	<b>Bearing</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments	486	-	6,017	6,503
Cash and cash Equivalents	-	1,338	-	1,338
Other currents assets and current liabilities (net)	-	-	(70)	(70)
	-----	-----	-----	-----
Net assets	486	1,338	5,947	7,771
	-----	-----	-----	-----

## 17. Financial instruments (continued)

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 primarily 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 2014 the Company held £2,716,870 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:

	2014	2013
	£000	£000
Investments – UK Gilts and Corporate Bonds	693	486
Cash & cash equivalents	2,717	1,338
Other current (liabilities)/assets (net)	(85)	(70)
	-----	-----
	3,325	1,754
	-----	-----

Cash balances were held on deposit with RBS at 28 February 2014.

### 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

	2014 Ord £000	2013 Ord £000
Paid per share:		
Final dividend of 3 pence for the year ended 29 February 2012	-	233
Paid per share:		
Final dividend of 3 pence for the year ended 28 February 2013	304	-
Paid per share:		
Interim dividend of 2 pence for year ended 28 February 2014	203	-
Paid per share:		
Interim dividend of 2 pence for year ended 28 February 2013	-	156
	-----	-----
	507	389
	-----	-----
Proposed per share:		
Final dividend of 4 pence for the year ended 28 February 2014	619	-
	-----	-----
Proposed per share:		
Final dividend of 3 pence for the year ended 28 February 2013	-	304
	-----	-----

## 19. Post Balance Sheet Events

### Joint Offer for Subscription of Ordinary Shares

Following the year end the offer for subscription has resulted in an additional 1,594,641 ordinary shares being issued raising gross proceeds of £1,971,863. Total raised to date under the offer is £6,249,613. The Offer will close at 12pm on 31 October 2014 unless previously extended beyond this date, or earlier if the maximum subscription has been reached before then.

# 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  
Accurist House  
44 Baker Street  
London  
W1U 7AL

## **Manager**

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W1U 7AL

## **Registrars**

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## **Solicitors**

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## **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## **VCT Status Adviser**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

## **Brokers**

Singer Capital Markets Limited  
One Hanover Street  
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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 Accurist House, 44 Baker Street, London, W1U 7AL on 4 July 2014 at 10am for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 7 will be proposed as ordinary resolutions and 8 to 10 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 2014;
2. To receive and approve the Directors Remuneration Report for the year ended 28 February 2014;
3. To approve the Directors Remuneration Policy, the full text of which is contained in the Directors Remuneration Report for the year ended 28 February 2014;
4. To reappoint BDO LLP as Auditors to the company and to authorise the Directors to determine their remuneration;
5. To re-elect Giles Hargreave as a Director of the Company;
6. To re-elect Philip Cammerman as a Director of the Company;
7. To approve a final dividend of 4 pence per ordinary share in respect of the year ended 28 February 2014.

## Special Business

### *Ordinary Resolution*

8. 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 £100,000, this authority to expire on the earlier of the conclusion of the Company's next annual general meeting in 2015 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*

9. 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 2015 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 (8) 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.
10. THAT, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary Shares of 1 pence each in the capital of the Company, on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in section 727 of the Act, provided that:
  - (a) the maximum aggregate number of shares hereby authorised to be purchased is 14.99 per cent. of the issued Ordinary share capital of the Company as at the date of the passing of this resolution;
  - (b) the minimum price which may be paid for an Ordinary share shall be 1 pence (exclusive of expenses);
  - (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase; and

(d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire 15 months from the date that this resolution is passed or, if earlier, at the conclusion of the annual general meeting of the Company to be held after the passing of this resolution, save that the Company may, at any time prior to such expiry, enter into a contract or contracts to purchase shares under such authority which would or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract or contracts as if the authority conferred hereby had not expired.

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the “Regulations”), Ordinary Shares purchased by the Company out of distributable profits can be held as treasury shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 10 is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

By order of the Board

**Stuart Brookes**  
Company Secretary

Registered Office:  
Accurist House  
44 Baker Street  
London  
W1U 7AL

Date: 23 May 2014

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 6DA 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 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 6pm on 2 July 2014 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 2 July 2014 (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](http://www.euroclear.com)). 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 Act, 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 Act, 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 <http://www.hargreave-hale.co.uk/fund-management/venture-capital-trusts/hargreave-hale-aim-vct-2/factsheets-and-reports/>.

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
2. As at 22 May 2014 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 15,468,149 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 15,468,149.