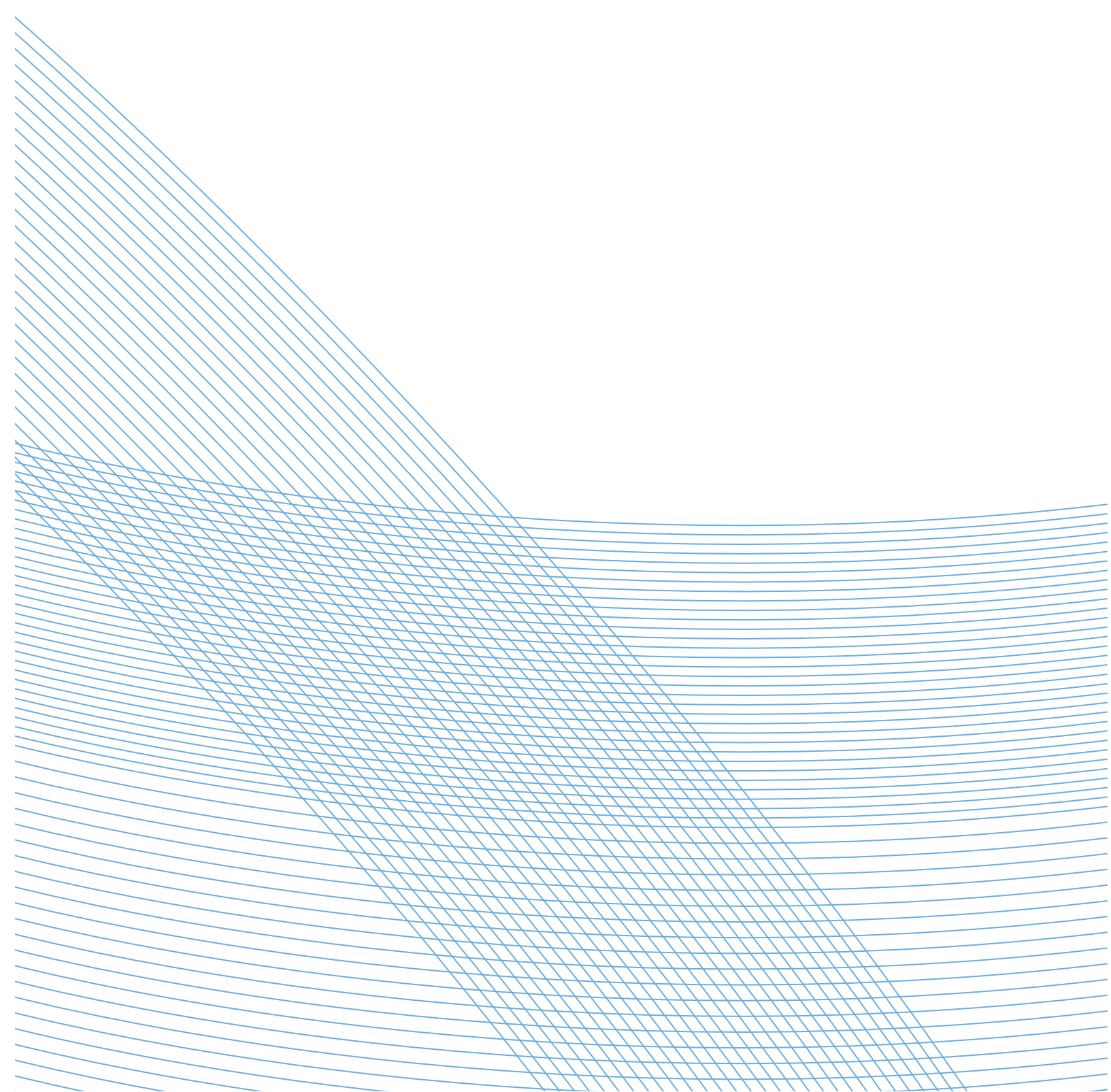


HARGREAVEHALE AIM VCT 2 plc

Annual Report and Accounts
Year ended 28 February 2015



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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 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

Ordinary Shares (as at 28 February):	2015	2014
Net asset value per share	110.33p	120.24p
Cumulative distributions paid per share since launch	37.00p	31.00p
Total return per share	147.33p	151.24p
Annual returns per share (basic and diluted):		
Revenue return	(1.09)p	(1.73)p
Capital return	(1.88)p	33.61p
Combined return	(2.97)p	31.88p
Dividends per share:		
Interim paid	2.00p	2.00p
Final proposed/paid	4.00p	4.00p
Total dividend for year	6.00p	6.00p
Ongoing expense ratio	2.10%	2.35%
Performance Benchmark:		
FTSE AIM All-Share Index (rebased to 100 at 6 April 2007)	61.7	77.1

The Glossary of Terms can be found on page 50 of the report.

CHAIRMAN'S STATEMENT

Introduction

Following the success of our joint offer for subscription I would like to welcome a large number of new shareholders.

At 28 February 2015 the net asset value ("NAV") was 110.33 pence which after adjusting for the dividends paid gives a Total Return since inception of 147.33 pence. The loss per ordinary share for the year was 2.97 pence per share (comprising revenue losses of 1.09 pence and capital losses of 1.88 pence). During the financial year as a whole the FTSE AIM All Share Index fell by 20.0% and the FTSE All-Share index rose by 2.1%.

Investments

The investment manager, Hargreave Hale Limited, invested a further £3.0 million through 19 Qualifying Investments during the year. The fair value of Qualifying Investments at 28 February 2015 was £13.0 million invested in 54 AIM companies and 4 private companies. The balance of the fund, £11.3 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 31 October 2014 (2013 – 2 pence).

A final dividend of 4 pence is proposed (2014 – 4 pence) which, subject to shareholder approval at the Annual General Meeting will be paid on 28 August 2015, to ordinary shareholders on the register on 7 August 2015.

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 year end NAV per share of the Company.

Buybacks

In total, 68,085 shares were purchased during the year at an average price of 103.59 pence per share. A further 93,866 shares have been purchased since the year end at an average price of 103.83 pence.

The Board continues to target a share price discount of 5% of the NAV per share (as measured against the mid-price) for market purchases. It should be emphasised that this target is non-binding and dependent on circumstances including the Company's liquidity from time to time and market conditions.

Issue of Equity

The 2013-2014 joint offer for subscription (together with Hargreave Hale AIM VCT 1) closed on 25 September 2014 and resulted in funds being received for Hargreave Hale AIM VCT 2 of £7.11 million and the issue of 6.21 million shares.

Current Joint Offer for Subscription of Ordinary Shares

The Directors of the Company announced on 3 October 2014 the launch of a joint offer for subscription for new shares in both Hargreave Hale AIM VCTs to raise up to £10 million into each company. The offer was approved by shareholders of the Company at a General Meeting on 7 November 2014 and is open to both new and existing shareholders.

Since its launch, the offer has resulted in funds being received of £9.89 million and the issue of 8.92 million shares. The offer will close at 12pm on 30 September 2015 or earlier if the maximum subscription has been reached before then.

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 by the start of the accounting period containing the third anniversary of the date on which the funds were raised. I am pleased to report that we continue to make good progress against this test and, at the year end, we had achieved 88.53% and have satisfied all the relevant tests.

Administration Charges

In addition to acting as the investment manager to the Company, Hargreave Hale provide administration, custody and company secretarial services to the VCT. For the past 6 years these charges have remained unchanged at £62,000 per annum whilst the burden of regulation and scale of the funds administered have increased substantially. Accordingly a resolution is being put to shareholders at the Annual General Meeting to increase this annual charge by £20,000. If approved by shareholders this will contribute towards the recruitment of another accountant dedicated to the VCT's affairs.

Outlook

Following the unexpected UK General Election result, the political and taxation environment for business and VCTs remains positive. This bodes well for the results of our portfolio companies. However there remain significant stresses and strains within the Eurozone. Most recently this has seen the Greek relationship in the spotlight. In due course no doubt markets will also concern themselves with the UK referendum. It seems inevitable therefore that markets will remain volatile.

The success of the joint offer has materially increased the net assets of the Company, and our immediate task is to invest wisely the substantial amount of cash that we presently hold on our balance sheet. The risks inherent in our business are mitigated by our existing mature portfolio of successful investments that we have held over a number of years.

David Hurst-Brown
Chairman

Date: 26 June 2015

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 Anite plc and also non-executive chairman of 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 client 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 manager of the Marlborough Special Situations Fund. He also co-manages the Marlborough UK Micro Cap Growth Fund, the Marlborough UK Nano-Cap Growth 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 managing 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, British Smaller Companies VCT plc, Howmac Limited and FC Fund Managers Limited.

STRATEGIC REPORT

This 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 32 to 34.

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;
- targeted investment in equities which are non-qualifying investments on an opportunistic basis to boost the performance of the Company; and
- 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 will also consider ISDX-quoted companies and private companies that meet the investment criteria summarised below; and
 - 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 £5.6 billion under administration and £4.6 billion under managed accounts. Hargreave Hale has been managing investments in UK Small and Micro Cap companies for 17 years and VCTs for 11 years. It has a long established reputation that stems from its management of the Marlborough Special Situations Fund 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 1,873% (to 28 February 2015) 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 13. The investment team manages approximately £2.8 billion, of which approximately £2.1 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 Company to maintain its 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 the Company), which is effectively the aggregate of the nominal capital of the Company issued and paid up and the amounts 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.

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 2015 was strong with no debt or gearing.

Overview of the year

In the financial year under review, net assets increased from £16.7m to £24.1m. In this period, the NAV per share decreased from 120.24p to 110.33p. This resulted in a loss to ordinary shareholders of 3.91 pence per share after adjusting for dividends paid of 6.00 pence per share.

Dividends

An interim dividend of 2 pence was paid on 31 October 2014 and a final dividend of 4 pence has been proposed.

Buybacks

In total, 68,085 shares were purchased during the year at an average price of 103.59 pence per share. A further 93,866 shares have been purchased since the year end at an average price of 103.83 pence.

Investments

As a whole, during the year, the portfolio of Qualifying Investments increased from £10.4m to £13.0m. The Company invested in 19 Qualifying Investments at a cost of £3.0m, of which 16 were investments into new Qualifying Companies.

For further details please refer to the investment manager's 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
- Percentage invested in Qualifying Companies

Commentary on the performance of these KPIs has been discussed in the chairman's statement and investment manager's report on pages 4 to 5 and 10 to 11 respectively. 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 disqualification of the Company as a VCT and the loss of tax reliefs for the Company and individual shareholders. The Board receives a half yearly compliance report prepared by Robertson Hare LLP to monitor compliance with regulations.
- Investment risk** – Many of the Company's investments are held in small to medium sized unlisted private companies or AIM listed companies making them by nature risky investments. The Directors aim to mitigate the risk by ensuring the maximum initial investment in any single 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 asset 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.

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

Employees

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

By order of the Board of Directors

STUART BROOKES
Company Secretary

Date: 26 June 2015

INVESTMENT MANAGER'S REPORT

Introduction

This report covers the 2014/15 financial year, 1 March 2014 to 28 February 2015. The investment manager's report contains references to movements in the NAV per share and Total Return per share (NAV 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 for the Company within the reported period as a function of the weighted average number of shares in issue for the period.

Investment Report

Major global equity markets endured multiple episodes of elevated volatility over the period as investors grappled with continued weakness in the Eurozone economies, disinflation (and more recently deflation), collapsing oil prices and a possible slowdown in China. At the same time, the Federal Reserve continued to tighten monetary policy through the winding up of its quantitative easing programme. Meanwhile, the UK continues to look attractive with further evidence of strong and sustainable growth in the economy, strong employment data, sustainably low interest rates and reductions in food and energy prices. One could argue that the outlook for UK households is better now than at any time since the financial crisis. The same could be said of UK small companies.

Unfortunately, and despite our cautious optimism, the period under review has been difficult for UK small and micro caps. For the most part, this can be attributed to the general weakness in UK equities that persisted for much of 2014. However, we believe the elevated market volatility in late 2014 and, more recently, concerns about the UK election caused a partial rotation towards more defensive and larger companies at the expense of the smallest companies on the market.

Performance

In the twelve months to 28 February 2015, the NAV decreased from 120.24p to 110.33p. 6.0p in dividends were paid, giving investors a Total Return of -3.91 pence per share, which translates to a loss of 3.3%. During the same period the FTSE AIM All-Share Index fell 20.0%.

The Qualifying Investments made a net contribution of -0.56 pence per share with 26 out of the 59 making gains, 2 marking time and 31 losing ground. The balance was a mixture of non-qualifying portfolio losses, costs, income and small gains made through share buy backs.

Mexican Grill was the top performing Qualifying Investment (+94.3%, +3.84 pence per share) following a revaluation from £44.00 to £85.50. The new valuation was underpinned by a major transaction in the shares as the founder sold down 50% of his holding following his move to a non-executive role within the company. A number of other investors joined him in selling down some or all of their holding. There were multiple willing buyers, including Quilvest (a private equity house and the largest shareholder) and Hargreave Hale AIM VCT 1 plc. Other stocks that made a significant contribution included Audioboom (+450.0%, +3.39 pence per share), TrakM8 (+82.8%, +1.83 pence per share) and Vision Direct (formerly Get Lenses) (+100.0%, +0.60 pence per share).

The biggest losses within the period came from Wandisco (-69.6%, -1.79 pence per share), Outsourcery (-75.4%, -1.44 pence per share), MYCELX (-74.2%, -1.4 pence per share), Porta Communications (-53.2%, -1.04 pence per share) and Intercede (-38.5%, -0.98 pence per share).

We made 19 Qualifying Investments over the year, which included 6 additional investments into existing Qualifying Companies; 8 secondary placing's into listed companies and 5 initial public offerings ("IPOs"). We invested a total of £3.0m into Qualifying Investments over the year.

Within the portfolio of Qualifying Investments, we exited Clean Air Power while also reducing the size of our investment in Audioboom, Premaitha, Ilika and Omega Diagnostics.

Portfolio Structure

The HMRC investment tests are set out in Chapter 3 of Part 6 Income Tax Act 2007, which should be read in conjunction with this section of the investment manager's report. Funds raised by VCTs are first included in the investment tests from the start of the accounting period containing the third anniversary of the date on which the funds were raised. Therefore, the allocation of Qualifying Investments as defined by the legislation can be different to the portfolio weighting as measured by market value relative to the net assets of the Company.

The VCT is comfortably through the HMRC defined investment test and ended the period at 88.53% invested as measured by the HMRC investment test. By market value, the VCT had a 53.7% weighting to Qualifying Investments.

The allocation to non-qualifying equity investments increased marginally from 9.4% to 10.4%, representing the funds on-going small participation in non-qualifying equity issues and IPOs at attractive valuations. In line with the investment policy we continued to make use of the Marlborough Special Situations Fund as a temporary home for proceeds from fundraising. Although the year end weighting of 6.3% was below last year's 8.2%, this allocation has been materially higher at times. The non-qualifying investments contributed -1.25 pence per share to the overall losses. Fixed income as a percentage of the fund fell from 4.2% to 2.2% and cash ended the year at 27.8%, considerably higher than 16.3% last year, largely a result of the proceeds from the current offer.

Post Year End Update

Deal flow has been strong since year end and 8 additional Qualifying Investments have been made in Eagle Eye, Electrical Geodesics, Synety Group, Satellite Solutions, Imaginatik, Sphere Medical Holdings, CentralNic Group and DP Poland. We believe there is a strong pipeline of Qualifying Investment opportunities.

For further information please contact:

Stuart Brookes
Company Secretary
Hargreave Hale AIM VCT 2 plc
01253 754740

Date: 26 June 2015

INVESTMENT PORTFOLIO SUMMARY

Ordinary Share Fund

As at 28 February 2015

Qualifying Investments	Book Cost £000	Valuation £000	Valuation %
Mexican Grill Ltd (A Preference Shares)	277	1,154	6.58
TrakM8 Holdings plc	160	770	4.39
Advanced Computer Software Group plc	68	558	3.18
Ideagen plc	190	516	2.94
APC Technology Group plc	350	420	2.39
Flowgroup plc	268	417	2.38
Premaitha Health plc	159	411	2.34
Clearstar Inc	360	379	2.16
Quixant plc	120	370	2.11
Hardide plc	77	357	2.03
Animalcare Group plc	100	345	1.97
Lombard Risk Management plc	92	328	1.87
Microsaic Systems plc	272	322	1.84
TLA Worldwide plc	150	323	1.84
Intercede Group plc	91	295	1.68
Audioboom plc	126	286	1.63
Angle plc	252	283	1.61
Vision Direct Group Ltd	132	264	1.50
Mirada plc	266	261	1.49
Science in Sport plc	160	249	1.42
EKF Diagnostics Holdings plc	150	238	1.35
Sanderson Group plc	200	229	1.31
Plastics Capital plc	202	222	1.27
E G Solutions plc	200	222	1.26
Gfinity plc	125	204	1.16
Reneuron Group plc	179	204	1.16
Kalibrate Technologies plc	161	196	1.11
Electric Word plc	185	179	1.02
Lidco Group plc	146	178	1.02
Fusionex International plc	69	171	0.97
Everyman Media Group plc	172	165	0.94
Midatech Pharma plc	150	164	0.94
Tristel plc	80	157	0.90
ULS Technology plc	139	156	0.89
Porta Communications plc	200	145	0.83
MartinCo plc	113	135	0.77
Mexican Grill Ltd (Ordinary Shares)	31	128	0.73
DP Poland plc	77	125	0.71
WANDisco plc	53	120	0.68
Omega Diagnostics Group plc	129	118	0.67
Belvoir Lettings plc	150	113	0.64
Nektan plc	70	112	0.64
Eagle Eye Solutions plc	85	110	0.63
Fulcrum Utility Services Ltd	100	93	0.53
MYCELX Technologies Corporation plc	150	89	0.50
Paragon Entertainment Ltd	200	87	0.49
Synety Group plc	134	85	0.49
Imaginatik plc	150	80	0.45
Outsourcery Group plc	300	71	0.41
Ilika plc	53	70	0.40
Verona Pharma plc	72	63	0.36
Synairgen plc	90	50	0.29
Proxama plc	63	45	0.26

INVESTMENT PORTFOLIO SUMMARY (continued)

	Book Cost £000	Valuation £000	Valuation %
Qualifying investments (continued)			
Tangent Communications plc	150	45	0.26
Corac Group plc	125	37	0.21
Sphere Medical Holdings plc	150	31	0.18
Brigantes Energy Ltd	25	6	0.04
Corfe Energy Ltd	25	6	0.04
Mopowered Group plc	150	4	0.02
	-----	-----	-----
<i>Total: Qualifying Investments</i>	<i>8,673</i>	<i>12,961</i>	<i>73.88</i>
Non-Qualifying Investments			
Marlborough Special Situations Fund	1,361	1,528	8.71
	-----	-----	-----
<i>Total: unit trusts</i>	<i>1,361</i>	<i>1,528</i>	<i>8.71</i>
UK Treasury Stock 2.5% 2024	121	120	0.68
	-----	-----	-----
<i>Total: UK Gilts</i>	<i>121</i>	<i>120</i>	<i>0.68</i>
Nationwide Building Society 7.971% 2049	247	251	1.43
Scottish Amicable Finance 8.5% 2049	154	172	0.98
	-----	-----	-----
<i>Total: corporate bonds</i>	<i>401</i>	<i>423</i>	<i>2.41</i>
Advanced Computer Software Group plc	162	279	1.59
Cohort plc	176	252	1.44
Imagination Technologies Group plc	152	164	0.93
FC Fund Managers Ltd	150	150	0.85
Horizon Discovery Group plc	124	148	0.84
MYCELX Technologies Corporation plc	170	142	0.81
Flowtech Fluidpower plc	100	122	0.70
Vertu Motors plc	76	117	0.67
Crawshaw Group plc	100	107	0.61
Plexus Holdings plc	125	99	0.57
Amerisur Resources plc	167	98	0.56
Learning Technologies Group plc	80	93	0.53
Finsbury Food Group plc	75	89	0.51
Idox plc	69	81	0.46
Egdon Resources plc	140	73	0.42
Cleeve Capital plc	42	70	0.40
Tarsus Group plc	72	69	0.39
K3 Business Tech Group plc	61	67	0.38
Plethora Solutions Holdings plc	93	60	0.34
Eagle Eye Solutions plc	44	53	0.30
Reneuron Group plc	41	53	0.30
Mithril Capital plc	42	49	0.28
Synairgen plc	52	31	0.18
Genagro Ltd	22	29	0.16
Mexican Grill Ltd (A Preference Shares)	3	10	0.06
Westmount Energy Ltd	9	3	0.02
MYCELX Technologies Corporation plc	8	2	0.01
TLA Worldwide plc	1	1	0.01

INVESTMENT PORTFOLIO SUMMARY (continued)

	Book Cost £000	Valuation £000	Valuation %
Non-Qualifying investments (continued)			
Microsaic Systems plc	1	1	0.00
Paragon Entertainment Ltd	1	0	0.00
Proxama plc	1	0	0.00
	-----	-----	-----
<i>Total: non-qualifying equities</i>	<i>2,359</i>	<i>2,512</i>	<i>14.32</i>
	-----	-----	-----
<i>Total: non-qualifying investments</i>	<i>4,242</i>	<i>4,583</i>	<i>26.12</i>
	-----	-----	-----
Total investments	12,915	17,544	100.00
	-----	-----	-----

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

	Listed	Headquartered	Registered
<i>AIM listed Investments:</i>			
Audioboom plc	UK	London	Jersey
Clearstar Inc	UK	Cayman Islands	Cayman Islands
Fulcrum Utility Services plc	UK	South Yorkshire	Cayman Islands
Fusionex International plc	UK	London	Jersey
MYCELX Technologies Corporation plc	UK	USA	USA
Nektan Ltd	UK	Gibraltar	Gibraltar
Paragon Entertainment Ltd	UK	Jersey	Cayman Islands
Tarsus Group Ltd	UK	Dublin	Jersey
WANDisco plc	UK	Sheffield	Jersey
Westmount Energy Ltd	UK	Jersey	Jersey
<i>Unlisted private companies:</i>			
Brigantes Energy Ltd	-	Middlesex	UK
Corfe Energy Ltd	-	Middlesex	UK
FC Fund Managers Ltd	-	Cornwall	UK
Genagro Ltd	-	Jersey	Jersey
Vision Direct Group Ltd	-	London	UK
<i>Authorised unit trust:</i>			
Marlborough Special Situations Fund	-	Bolton	UK

TOP TEN INVESTMENTS

As at 28 February 2015 (by market value)

The top 10 equity investments are shown below; each is valued by reference to the bid price, or, in the case of unquoted companies, values are either based on the last arm's length transaction or valuation techniques, such as earnings multiples. 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.

Advanced Computer Software Group plc 139.5p

Investment date	July 2008	Forecasts for year to	February 2015
Equity held	0.11%	Turnover (£'000)	219,900
Av. purchase price	17.0p	Profit before tax (£'000)	35,600
Cost (£'000)	230	Net cash (£'000)	-37,400
Valuation (£'000)	837		

Advanced Computer Software Group plc provides specialised software and services. The company's portfolio for the healthcare 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. Since the year end the company was acquired for 140.0p per share, valuing the business at £725 million.

APC Technology Group plc 24.0p

Investment date	December 2014	Forecasts for year to	August 2015
Equity held	1.93%	Turnover (£'000)	32,900
Av. purchase price	20.0p	Profit before tax (£'000)	-100
Cost (£'000)	350	Net cash (£'000)	-1,250
Valuation (£'000)	420		

APC Technology is a leading provider of sustainability technologies, products and services and an established distributor of specialist electronic components. Markets include defence, aerospace, space, transportation, medical and industrial sectors. Products are wide ranging in their complexity and in their application and are sold through a number of semi-autonomous teams.

Clearstar Inc 60.0p

Investment date	June 2014	Forecasts for year to	December 2015
Equity held	1.74%	Turnover (\$'000)	17,900
Av. purchase price	57.0p	Profit before tax (\$'000)	2,200
Cost (£'000)	360	Net cash (\$'000)	6,480
Valuation (£'000)	379		

Clearstar is a technology and service provider that supports background screening for companies. The company provides employment intelligence to its clients through a suite of IT applications for day-to-day use in their recruitment and employment application decisions.

Flowgroup plc 33.0p

Investment date	Sept 2012	Forecasts for year to	December 2015
Equity held	0.53%	Turnover (£'000)	52,700
Av. purchase price	21.3p	Profit before tax (£'000)	-13,600
Cost (£'000)	268	Estimated net cash (£'000)	28,000
Valuation (£'000)	417		

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 Products, the company has developed and launched a microCHP boiler into the UK residential market, whilst Flow Energy supplies gas and electricity into the UK domestic energy market. The third subsidiary, Flow Battery, has developed and supplies compressed air back up power systems for use in a range of commercial applications.

Hardide plc		1.40p	
Investment date	June 2009	Forecasts for year to	September 2015
Equity held	1.91%	Turnover (£'000)	3,500
Av. purchase price	5.6p	Profit before tax (£'000)	-300
Cost (£'000)	77	Net cash (£'000)	3,400
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.

Ideagen plc		37.5p	
Investment date	March 2011	Forecasts for year to	April 2015
Equity held	0.79%	Turnover (£'000)	14,200
Av. purchase price	13.8p	Profit before tax (£'000)	3,600
Cost (£'000)	190	Net cash (£'000)	2,800
Valuation (£'000)	516		

Ideagen is a supplier of compliance based Information Management software with operations in the UK and the United States. The company specialises in Enterprise Governance, Risk and Compliance and Healthcare solutions for organisations operating within highly regulated industries. Ideagen provides complete content lifecycle solutions that enable organisations to meet their Regulatory and Quality Compliance standards, helping them to reduce costs and improve efficiency.

Mexican Grill Ltd		8550.0p	
Investment date	October 2009	Forecasts for year to	December 2015
Equity held	4.70%	Turnover (£'000)	22,900
Av. purchase price	2059.0p	Profit before tax (£'000)	870
Cost (£'000)	311	Net cash (£'000)	-730
Valuation (£'000)	1,292		

Mexican Grill is a private company that operates 22 fast casual California-Mexican restaurants that provide fresh, made to order cuisine for eat in or take-away, making it one of the largest chains within its niche.

Premaitha Health plc		28.5p	
Investment date	June 2014	Forecasts for year to	March 2015
Equity held	0.77%	Turnover (£'000)	200
Av. purchase price	11.0p	Profit before tax (£'000)	-3,400
Cost (£'000)	159	Net cash (£'000)	5,200
Valuation (£'000)	411		

Premaitha Health is an innovative molecular diagnostics company employing the latest advances in DNA analysis technology to develop tests for non-invasive prenatal screening (NIPT) and other applications. Premaittha's flagship product, the IONA test is the first non-invasive in vitro diagnostics CE marked product for prenatal screening enabling clinical laboratories to offer a regulated NIPT in-house.

Quixant plc		142.0p	
Investment date	May 2013	Forecasts for year to	December 2015
Equity held	0.40%	Turnover (\$'000)	37,600
Av. purchase price	46.0p	Profit before tax (\$'000)	8,500
Cost (£'000)	120	Net cash (\$'000)	3,400
Valuation (£'000)	370		

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.

Trakm8 Holdings plc**106p**

Investment date	October 2013	Forecasts for year to	March 2015
Equity held	2.51%	Turnover (£'000)	18,000
Av. purchase price	22.0p	Profit before tax (£'000)	1,700
Cost (£'000)	160	Net cash (£'000)	600
Valuation (£'000)	770		

Trakm8 manufactures and markets vehicle tracking products. The 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.

Co-Investments

As at 28 February 2015, other funds managed by Hargreave Hale Limited were also invested in the following investments: Advanced Computer Software Group plc, Amerisur Resources plc, Angle plc, Animalcare Group plc, APC Technology Group plc, Audioboom plc, Belvoir Lettings plc, Brigantes Energy Ltd, Clearstar Inc, Cleeve Capital plc, Cohort plc, Corac Group plc, Corfe Energy Ltd, Crawshaw Group plc, DP Poland plc, E G Solutions plc, Eagle Eye Solutions Ltd, Egdon Resources plc, EKF Diagnostic Holdings plc, Everyman Media Group plc, FC Fund Managers Ltd, Finsbury Food Group plc, Flowgroup plc, Flowtech Fluidpower plc, Fulcrum Utility Services Ltd, Fusionex International plc, Genagro Ltd, Gfinity plc, Hardide plc, Horizon Discovery Group plc, Ideagen plc, Idox plc, Ilika plc, Imaginatik plc, Imagination Technologies Group plc, Intercede Group plc, Kalibrate Technologies plc, K3 Business Tech Group plc, Learning Technologies Group plc, Lidco Group plc, Lombard Risk Management plc, Marlborough Special Situations Fund, MartinCo plc, Mexican Grill Ltd, Microsaic Systems plc, Midatech Pharma plc, Mirada plc, Mithril Capital plc, MoPowered Group plc, MYCELX Technologies Corporation plc, Nationwide Building Society 7.971% 2049, Nektan Ltd, Outsourcery Group Ltd, Plastics Capital plc, Plethora Solutions Holdings plc, Plexus Holdings plc, Porta Communications plc, Premaitha Health plc, Proxama plc, Quixant plc, Reneuron Group plc, Sanderson Group plc, Science in Sport plc, Scottish Amicable Finance 8.5% 2049, Sphere Medical Holdings plc, Synairgen plc, Synety Group plc, Tangent Communications plc, Tarsus group plc, TLA Worldwide plc, TrakM8 Holdings plc, ULS Technology plc, Verona Pharma plc, Vertu Motors plc, WANDisco plc and Westmount Energy Ltd.

DIRECTORS' REPORT

For the year end 28 February 2015

The Directors present their report together with the audited financial statements of the Company for the year from 1 March 2014 to 28 February 2015.

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 as a Venture Capital Trust by HMRC under section 259 of the Income Taxes Act 2007. 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 UK based companies, primarily trading on AIM, with a view to maximising 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.

Revenue and Dividends

The revenue loss after tax for the year amounted to £186,239 (2014: £185,984 loss). An interim ordinary dividend of 2 pence per ordinary share was paid on 31 October 2014 (2013: 2 pence per share). The proposed final dividend of 4 pence per share for the year ended 28 February 2015 is due to be paid on 28 August 2015 (2014: 4 pence per share).

Share Valuation

On 28 February 2015, the bid-market price and the NAV per ordinary share were 103.00 pence and 110.33 pence respectively.

Management

Hargreave Hale Limited is the Company's appointed investment manager. The principal terms of the Company's agreement with Hargreave Hale Limited are set out in Note 3 to the financial statements.

Following an initial period of three years, 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.

Hargreave Hale Limited also provides administration services, custody services, company secretarial services and one non-executive director, 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 Annual General Meeting on page 55.

VCT Status Monitoring

In November 2014, the Company appointed Robertson Hare LLP as advisors on, inter alia, compliance with legislative requirements. The Directors monitor the Company's VCT status through regular reports from Robertson Hare LLP. Prior to this appointment, PricewaterhouseCoopers LLP provided this service.

Substantial Holdings in the Company

At 28 February 2015, there were 2 holdings of 3% and over of the Company's ordinary share capital. These holdings related to Hargreave Hale Nominees Limited with 7.73% and Hargreaves Lansdown Nominees Limited with 6.02%.

Directors

The present directors are listed below.

Directors' Interests

The Directors' interests (including those of connected persons) in the issued share capital of the Company are outlined below. There is no minimum holding requirement that the Directors need to adhere to.

	Ordinary Shares	
	2015	2014
David Hurst-Brown	45,836	45,836
Giles Hargreave	164,151	164,151
Philip Cammerman	8,190	8,190

There have been no changes to the beneficial interests of the Directors between 28 February 2015 and the date of this report.

Share Buybacks

During the year, the Company repurchased 68,085 ordinary shares (nominal value £681) at a cost of £70,531. The repurchased shares represent 0.5% of ordinary shares in issue on 1 March 2014. All repurchased shares were cancelled. A further 93,866 ordinary shares (nominal value £939) have been purchased since the year end at a total cost of £97,456.

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 Board, there is adequate surplus cash available, the Company will consider buying back shares at a 5% discount to the last published NAV per share. The target of a share price discount of 5% of the NAV per share (as measured against the mid-price) is non-binding and at the Board's discretion.

2013-2014 Joint Offer for Subscription

The 2013-2014 joint offer for subscription (together with Hargreave Hale AIM VCT 1 plc) closed on 25 September 2014 and resulted in funds being received for the Company of £7.11 million and the issue of 6.21 million shares.

Current Joint Offer for Subscription of Ordinary Shares

The Directors of the Company announced on 3 October 2014 the launch of a joint offer for subscription for new shares in both Hargreave Hale AIM VCTs to raise up to £10 million into each company. The current offer was approved by shareholders of the Company at a General Meeting on 7 November 2014 and is open to both new and existing shareholders.

Since launch, the offer has resulted in funds being received of £9.89 million and the issue of 8.92 million shares. The offer will close at 12pm on 30 September 2015 or earlier if the maximum subscription has been reached before then.

Post Balance Sheet Events

Post balance sheet events are disclosed in Note 19 on page 49 of the accounts.

Future Developments

Consideration of the Company's future development and prospects are contained in the chairman's statement and investment manager's report on pages 4 and 10 respectively.

Directors' and Officers' Liability Insurance

All Directors and Officers benefit from 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 of receipt. The average time recorded to pay creditors in the year was 1 day (2014 – 8 days). The use of electronic payments instead of cheques has reduced the time taken to pay suppliers.

Charitable and Political Donations

The Company made no charitable or political donations in the year (2014: 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 Annual General Meeting.

The Directors who held office at the date of approval of this directors' 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 26 to 30 is included in the directors' report by reference.

Greenhouse Emissions

As a UK quoted company, the VCT is required to report on its greenhouse gas emissions. As it outsources all of its activities to third parties and does not have any physical assets, property, employees or operations, the Company is not directly responsible for any greenhouse gas emissions.

Annual General Meeting

The Annual General Meeting will be held at Accurist House, 44 Baker Street, London, W1U 7AL at 11 am on 21 August 2015. 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 7 will request the authority to allot up to an aggregate nominal amount of £120,000. This resolution replaces the authority given to the Directors at the General Meeting on 7 November 2014. 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.

Deed of Variation to Administration Agreement

Ordinary resolution number 8 proposes that the annual administration charge payable by the Company to Hargreave Hale Limited is increased by £20,000 per annum to account for an additional member of support staff required for Hargreave Hale Limited to provide administrative services to the Company under the current administration agreement.

Shareholder approval is being sought in respect of this proposed variation to the current administration agreement as it constitutes a related party transaction under the Listing Rules and it is an arrangement between the Company and the investment manager, Hargreave Hale Limited and Giles Hargreave is a director of both companies. If approved by shareholders at the Annual General Meeting this increased charge shall become effective once such additional member of support staff has been employed (which will be once shareholders have approved a similar increase for the annual administration charge payable by Hargreave Hale AIM VCT 1 plc to Hargreave Hale Limited, which is anticipated to be later in 2015).

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 £120,000 of the nominal value of the share capital.

This resolution replaces the authority given to the Directors at the General Meeting on 7 November 2014. 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 2014 authority, which was on similar terms. During the financial year under review, the Company purchased 68,085 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 of Directors

STUART BROOKES
Company Secretary

Registered office:
Hargreave Hale AIM VCT 2 plc,
Accurist House
44 Baker Street
London
W1U 7AL

Date: 26 June 2015

DIRECTORS' REMUNERATION REPORT

For the year ended 28 February 2015

The Board presents this report which has been prepared in accordance with the requirements of The Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013. Shareholders are encouraged to vote on the remuneration report annually at the Annual General Meeting and on the remuneration policy at least every three years.

Your Company's independent auditor is 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 32 to 34.

Statement from the Chairman of the Board in relation to Directors' Remuneration Matters

The Board is mindful of its obligation to set remuneration at levels which attract and maintain an appropriate calibre of individuals whilst simultaneously protecting the interests of shareholders.

In light of the obligations set out above, the Board has reviewed its existing remuneration levels. These have remained unchanged since the Company was formed 9 years ago. During the intervening period, the Company's net assets have increased by more than 440%, whilst the regulatory burden has increased and become more complex. Having regard to these factors and remuneration across the VCT industry, the Board decided to increase the annual remuneration of the non-executive Directors to £18,000 (from £15,000) and the Chairman to £22,500 (from £18,000).

Remuneration Responsibilities

As the Board consists entirely of non-executive directors it is considered appropriate that matters relating to remuneration are considered by all the Board as a whole, rather than a separate remuneration committee. All directors are considered independent with the exception of Giles Hargreave who is chairman of Hargreave Hale Limited and is not therefore independent.

The remuneration policy is set by the Board, which considers whether the remuneration policy is fair and in line with comparable VCTs, together with the remuneration of each of the directors. The Board deals with all matters relating to directors remuneration and reporting thereon and has established clear terms of reference.

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.

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, other incentives or benefits or payment on loss of office.

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.

Basis of Remuneration

All of the Directors are non-executive and considered to be independent with the exception of Giles Hargreave, who is not independent. It is not considered appropriate to relate any portion of their remuneration to the performance of the Company and performance conditions have not been set in determining their level of remuneration. As the Company has no employees, it is not possible to take account of the pay and employment conditions of the employees when determining the levels of the Directors' remuneration.

The table below shows the expected maximum payment that can be received per annum by each director for the year to 28 February 2016, together with a summary of the Company's strategy and how this is supported by the current remuneration policy.

Director	Role	Components of Pay Package	Expected fees for the year to 28 February 2016	Performance Conditions	Company Strategy	Remuneration Policy
David Hurst-Brown	Chairman	Basic Salary	£22,500	N/A	To achieve long term capital growth and to maximise tax free distributions to shareholders by investing in a diversified portfolio of small UK companies primarily traded on AIM.	The levels of remuneration are considered to be fair and reasonable in relation to the time committed and responsibilities of the Directors and in line with the remuneration paid by other VCTs and investment trusts.
Philip Cammerman	Director		£18,000			
Giles Hargreave	Director		£18,000			

Annual Remuneration Report

The purpose of this report is to demonstrate the method by which the Board has implemented the Company's remuneration policy and provide shareholders with specific information in respect of the Directors' remuneration.

Under CA06 s439, the rules require companies to ask shareholders to approve the annual remuneration paid to directors every year and to formally approve the directors' remuneration policy on an annual or on a three yearly basis. Any change to the directors' remuneration policy will require shareholder approval. As in prior years, the vote on the directors' remuneration report is an advisory vote, whilst the vote on the directors' remuneration policy is binding. Accordingly ordinary resolutions will be put to shareholders at the forthcoming Annual General Meeting to be held on 21 August 2015, to receive and adopt the directors' remuneration report and to receive and approve the directors' remuneration policy.

At the Annual General Meeting held on 4 July 2014 the following votes were cast on the remuneration report:

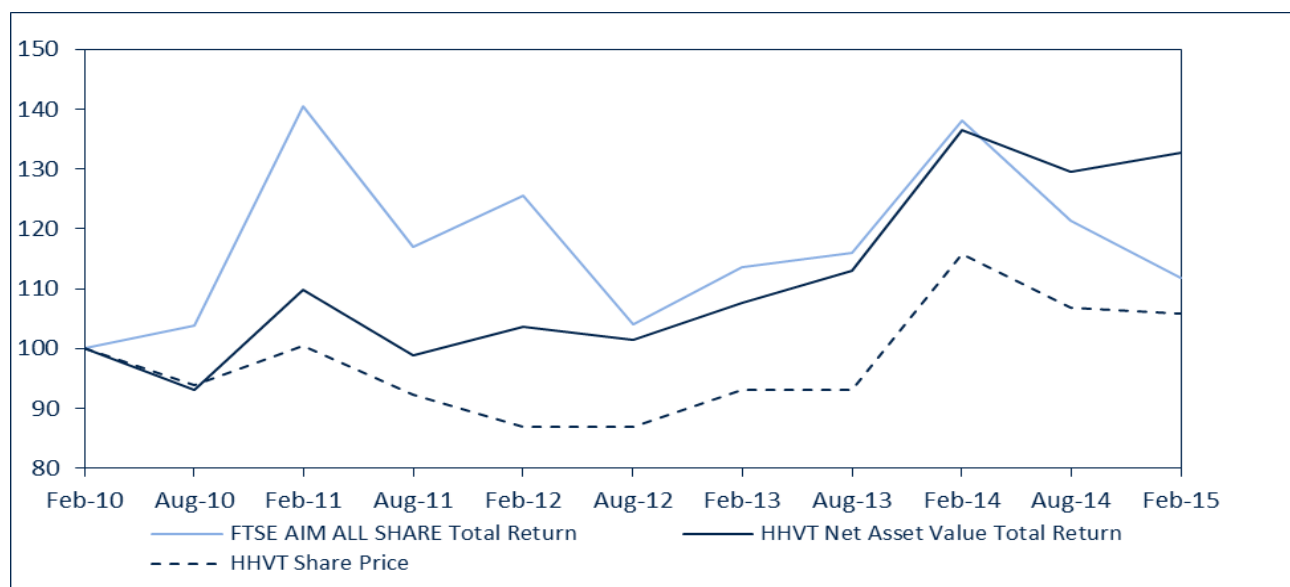
	Number of votes	% of votes cast
For	1,846,634	90.0%
Against	12,184	0.6%
Discretionary	193,406	9.4%
Total votes cast	2,052,224	100.0%
Number of votes withheld	5,567	

The remuneration policy was approved by shareholders at the Annual General Meeting held on 4 July 2014. Votes were cast as follows:

	Number of votes	% of votes cast
For	1,835,603	89.9%
Against	12,184	0.6%
Discretionary	193,406	9.5%
Total votes cast	2,041,193	100.0%
Number of votes withheld	16,598	

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 over the last five years 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.



Directors' Emoluments for the Year (audited)

The total emoluments of each person who served as a director during the year are set out in the table below. David Hurst-Brown is entitled to a higher fee due to his role as Chairman.

The table below compares Director's remuneration to shareholder distributions (through dividend payments and share buybacks) in respect of the financial year ended 28 February 2015 and the preceding financial year:

	Year ended 28 February 2015	Year ended 28 February 2014	Growth
	£	£	%
Directors' remuneration	48,000	48,000	0.0
Dividend paid	957,412	507,273	88.7
Share buybacks	70,531	414,176	-83.0

	2015	2015	2015	2014	2014	2014
	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
Total	48,000	-	48,000	48,000	-	48,000

Directors' remuneration has not increased in the year.

Directors' Interests

The Directors' interests (including those of connected persons) in the issued share capital of the Company are outlined below. There is no minimum holding requirement that the Directors need to adhere to.

	Ordinary Shares	
	2015	2014
David Hurst-Brown	45,836	45,836
Giles Hargreave	164,151	164,151
Philip Cammerman	8,190	8,190

There have been no changes to the beneficial interests of Directors between 28 February 2015 and the date of this report.

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.

Pension Benefits (audited)

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

Recruitment Remuneration Policy

The remuneration levels are designed to reflect the duties and responsibilities of the roles and the value of time spent in carrying these out. The Board will obtain independent advice where it considers it necessary. No such advice was taken during the year under review. This policy would be used when agreeing the remuneration of any new director.

Approval

The directors' remuneration report on pages 22 to 25 was approved by the Board of Directors on 26 June 2015 and will be further subject to an advisory vote at the Annual General Meeting being held on the 21 August 2015 and every year thereafter.

Signed on behalf of the Board of Directors

David Hurst-Brown

Chairman

26 June 2015

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. The other directors are all non-executive. The Company does not have a Chief Executive Officer as the responsibilities for the day to day management and administration of the Company has been delegated to Hargreave Hale Limited in their capacity as the investment manager and administrator to the Company.

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 the investment portfolio. A report is produced by the investment manager and includes information on the current investment position and outlook, strategic direction, performance against stock market indices, 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 Annual General Meeting and then retires at an Annual General Meeting 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.

Giles Hargreave is required to stand for election at this year's Annual General Meeting. 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' letters of appointment will be available at the Annual General Meeting 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 22 to 25.

Accountability and Audit

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 31. The independent auditor's report appears on pages 32 to 34.

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 Annual General Meeting.

The Directors complete an annual board evaluation questionnaire for each director covering performance appraisal of the Board, the Chairman and the Directors. The questionnaires were completed during the year and on review the Board is satisfied with the results and finds that the Board, the Chairman and the 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 auditor annually;
- To consider recommendations raised by the external auditor 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 2015 the audit committee discharged its responsibilities by:

- Reviewing the Company's draft annual and half yearly results statements, interim manager's statements, and the proposed fair value of investments as determined by the investment manager;
- 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 auditor's 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 legislation to maintain the Company's VCT status;
- Fluctuations in the value of investments; and
- Valuation and existence of investments in private unlisted companies.

These issues were discussed with the investment manager and the auditor at the audit planning meeting and at the board meeting prior to 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 Robertson Hare 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 and existence of investments in unlisted private companies.** The investment manager and the auditor confirmed to the audit committee that the basis of valuation for investments in unlisted private 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.

The committee considered the appointment of the current auditors and confirmed that it is satisfied with the standard of service received. Should the committee be dissatisfied, a tender process would be undertaken. A tender was last undertaken when the Company was incorporated in 2006, although there was rotation of the engagement partners in the prior year in accordance with the Auditors' Ethical Standards. A tender has not been undertaken since this date as the committee has been satisfied with the performance of the external auditor.

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 the appointment of Hargreave Hale Limited as administrators, the method of controlling company payments has changed. The Directors and the Company Secretary are authorised signatories. Each cheque must be signed by two authorised signatories, including one that is independent of Hargreave Hale.

The Board has approved electronic payments up to £10,000 to be authorised by either Stuart Brookes or David Hurst-Brown, payments over £10,000 must be dual authorised. Copy documentation to support all payments is circulated to the Directors for review.

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 to the auditors for non-audit services (2014: £nil).

Attendance at Board Meetings

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.

	Ordinary Business	
	No of Board Meetings Held	Attended
David Hurst-Brown (Chairman)	3	3
Giles Hargreave	3	3
Philip Cammerman	3	3

Fundraising and Share Allotments

	No of Board Meetings	
	Held	Attended
David Hurst-Brown (Chairman)	20	14
Giles Hargreave	20	19
Philip Cammerman	20	9

Attendance at Audit Committee Meetings

	No of Audit Meetings	
	Held	Attended
Philip Cammerman (Chairman)	2	2
David Hurst-Brown	2	2

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 NAV 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 Annual General Meeting. All shareholders are encouraged to attend the Annual General Meeting.

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).

Director/PDMR Sharedealing

In April 2015 the Company became aware of certain recent breaches in relation to the Listing Rules, the Model Code and the Disclosure and Transparency Rules. The Company immediately sought advice from its sponsors and lawyers and conducted an extensive review exercise which found other historic breaches where notifications and announcements had not been made in respect of dealings in the Company by PDMRs and their connected persons.

The Company notified the UK Listing Authority on a voluntary basis at the beginning of May of all such breaches. The Company has also undergone a comprehensive review of its procedures, systems and controls and implemented appropriate procedures to ensure that it complies with its obligations going forward. The Board and relevant employees of the investment manager have attended mandatory refresher training to ensure they fully understand their responsibilities and obligations under the Listing Rules, the DTRs and the Model Code. Following a response from the UK Listing Authority the Company made an announcement of all relevant dealings that were not announced at the time that they were made but should have been under the DTRs and this was released on 29 May 2015.

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: 26 June 2015

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

David Hurst-Brown (Chairman), Philip Cammerman and Giles Hargreave, 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 VCT 2 plc

We have audited the financial statements of Hargreave Hale AIM VCT 2 plc for the year ended 28 February 2015 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 2015 and of its loss 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 risk 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 NAV of the funds, derived using those valuations.
- We challenged the assumptions inherent in the valuation of investments in private unlisted companies 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. We have reviewed the recent published trading reports for the investments in private unlisted companies and considered differences between forecast and actual results. Where a recent transaction is used to value any investments in private unlisted companies, 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 tested the pricing of quoted investments to independent sources.

The audit committee's consideration of this key issue is set out on pages 27 to 30.

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. Our audit approach was based on a thorough understanding of the Company's business and is risk based. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

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 £450,000. 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.

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 £10,000.

We agreed with the audit committee that we would report to the committee all audit differences in excess of £10,000, 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 26 to 30 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 30, in relation to going concern and
- the part of the corporate governance statement relating to the Company's compliance with provisions of the UK Corporate Governance Code specified for our review.

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

Date: 26 June 2015

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

INCOME STATEMENT

For the year ended 28 February 2015

	Note	Revenue £000	Capital £000	Total £000
Net loss on investments held at fair value through profit or loss	7	-	(117)	(117)
Income	2	116	-	116
		-----	-----	-----
		116	(117)	(1)
		-----	-----	-----
Management fee	3	(68)	(206)	(274)
Other expenses	4	(234)	-	(234)
		-----	-----	-----
		(302)	(206)	(508)
		-----	-----	-----
(Loss) on ordinary activities before taxation		(186)	(323)	(509)
Taxation	5	-	-	-
		-----	-----	-----
(Loss) after taxation		(186)	(323)	(509)
		-----	-----	-----
(Loss) per share basic and diluted	6	(1.09)p	(1.88)p	(2.97)p
		-----	-----	-----

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 basic and diluted	6	(1.73)p	33.61p	31.88p
		-----	-----	-----

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

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

BALANCE SHEET

As at 28 February 2015

Company registration number: 5941261

(in England and Wales)

	Note	2015 £000	2014 £000
Fixed assets			
Investments at fair value through profit or loss	7	17,544	14,061
Current assets			
Debtors	9	26	24
Cash at bank	12	6,709	2,717
		-----	-----
		6,735	2,741
Creditors: amounts falling due within one year	10	(141)	(109)
		-----	-----
Net current assets		6,594	2,632
		-----	-----
Net assets		24,138	16,693
		-----	-----
Capital and Reserves			
Called up share capital	11	219	139
Share premium		13,118	4,217
Capital redemption reserve		3	2
Special reserve		7,124	8,152
Capital reserve – realised		(1)	(108)
Capital reserve – unrealised		4,629	5,059
Revenue reserve		(954)	(768)
		-----	-----
Total shareholders' funds		24,138	16,693
		-----	-----
Net asset value per share	13	110.33p	120.24p

These financial statements were approved and authorised for issue by the Board of Directors on 26 June 2015 and signed on its behalf by

David Hurst-Brown

Chairman

26 June 2015

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

CASH FLOW STATEMENT

For the year ending 28 February 2015

	Note	2015 £000	2014 £000
Net cash (outflow) from operating activities	15	(362)	(295)
Net cash (outflow) from investment activities	15	(3,600)	(3,821)
Dividends paid	18	(957)	(507)
		-----	-----
Net cash inflow from financing activities	15	(4,919)	(4,623)
		-----	-----
Increase in cash	12	8,911	6,002
		-----	-----
		3,992	1,379
		-----	-----

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

For the year ending 28 February 2015

Ordinary Shares	Share Capital	Share Premium	Capital Redemption Reserve	Special Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Revenue Reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 March 2014	139	4,217	2	8,152	(108)	5,059	(768)	16,693
Share buybacks	(1)		1	(71)				(71)
Subscriptions	81	8,901						8,982
Equity dividends paid (Note 18)				(957)				(957)
Realised gains on investments					313			313
Unrealised losses on investments						(430)		(430)
Management fee charged to capital					(206)			(206)
Revenue loss after taxation for the period							(186)	(186)
Total profit/(loss) after taxation					107	(430)	(186)	(509)
	-----	-----	-----	-----	-----	-----	-----	-----
At 28 February 2015	219	13,118	3	7,124	(1)	4,629	(954)	24,138
	-----	-----	-----	-----	-----	-----	-----	-----

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 2014

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

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.

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them is provided internally on that basis to the Board. Accordingly, as permitted by FRS 26, the investments are designated as fair value through profit or loss (FVTPL) on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. 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).

Recognition of impairment and realised losses

If an investment has been impaired such that there is no realistic expectation that there will be a full return from the investment, the loss is treated as a permanent impairment and is recognised as a realised loss in the financial statements.

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

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 18.

Reserves

A description of each of the reserves follows:

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 buyback facility.

Special Reserve

Distributable reserve used to pay dividends and re-purchase shares under the buyback 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.

2 Income

	2015 £000	2014 £000
Income from listed investments:		
UK dividends	71	35
Unfranked investment income	43	42
	-----	-----
	114	77
Other income:		
Deposit interest	2	6
	-----	-----
Total income	116	83
	-----	-----

3 Management Fees

	2015 Revenue £000	2015 Capital £000	2015 Total £000	2014 Revenue £000	2014 Capital £000	2014 Total £000
Ordinary Shares						
Management fees	68	206	274	41	124	165
	-----	-----	-----	-----	-----	-----
	68	206	274	41	124	165
	-----	-----	-----	-----	-----	-----

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% per annum of the NAV of the Company, calculated and payable quarterly in arrears. At 28 February 2015, £80,111 (2014 – £53,800) 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 2014 and 28 February 2015 and no fees were waived between 1 March 2013 and 28 February 2014 under the indemnity.

A performance related incentive fee will be payable at the rate of 20% of any dividends paid to shareholders in excess of 6p per ordinary share per annum, provided that the NAV per share is at least 95p and any cumulative shortfalls below 6p per ordinary share per annum 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 2015.

4 Other Expenses

	2015 £000	2014 £000
<i>General expenses</i>		
Administration fee (Hargreave Hale Limited)	35	35
Legal and professional	6	25
Other expenses	128	103
Directors' salaries and fees	48	50
Auditor's remuneration (for audit services)	17	15
	-----	-----
	234	228
	-----	-----

Directors' salaries and fees are including national insurance contributions. 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 21% (2014: 23%)

	2015 Total £000	2014 Total £000
(Loss)/profit on ordinary activities before taxation	(509)	3,427
UK Corporation Tax 21% (2014: 23%)	(107)	788
Effect of non-taxable losses/(gains) on investments	25	(860)
Effect of non-taxable UK dividend income	(15)	(8)
Effect of current year losses carried forward	97	80
Current tax charge	-	-

Tax losses carried forward at the balance sheet date were £1,778,525 (2014: £1,223,438).

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

	2015 Revenue pence	2015 Capital pence	2015 Total pence	2014 Revenue pence	2014 Capital pence	2014 Total pence
(Loss)/profit per ordinary share (basic and diluted)	(1.09)	(1.88)	(2.97)	(1.73)	33.61	31.88

Revenue return per ordinary share based on a net revenue loss on ordinary activities after taxation of £186,239 (2014: £185,984) and on 17,152,222 (2014: 10,750,728) 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 loss of £322,543 (2014: £3,612,932 profit) for the year and on 17,152,222 (2014: 10,750,728) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

7 Investments

	AIM Quoted Investments		Unquoted Investments		Other Quoted Investments		Total Investments	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Investments	13,725	11,055	3,276	2,313	543	693	17,544	14,061
Movement in year:								
Opening Valuation	11,055	5,015	2,313	1,002	693	486	14,061	6,503
Purchases at cost	5,648	4,046	961	1,398	-	301	6,609	5,745
Re-classification	83	150	(83)	(150)	-	-	-	-
Sales - proceeds	(2,200)	(1,540)	(676)	(311)	(133)	(73)	(3,009)	(1,924)
- realised gains/(losses)	296	34	31	9	(14)	(5)	313	38
Movements unrealised (losses)/gains	(1,157)	3,350	730	365	(3)	(16)	(430)	3,699
Closing valuation	13,725	11,055	3,276	2,313	543	693	17,544	14,061

7 Investments

Closing book cost	10,366	6,552	2,026	1,780	523	670	12,915	9,002
	-----	-----	-----	-----	-----	-----	-----	-----
Closing unrealised	3,359	4,503	1,250	533	20	23	4,629	5,059
	-----	-----	-----	-----	-----	-----	-----	-----
Realised gain/(loss) on sales	296	34	31	9	(14)	(5)	313	38
Unrealised (loss)/gain on investments	(1,157)	3,350	730	365	(3)	(16)	(430)	3,699
	-----	-----	-----	-----	-----	-----	-----	-----
(Loss)/gain on investments	(861)	3,384	761	374	(17)	(21)	(117)	3,737
	-----	-----	-----	-----	-----	-----	-----	-----

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) *Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) *Level 2:* 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); and
- (c) *Level 3:* If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The fair value of Level 3 instruments are determined by referencing the most recent arm's length transaction and/or valuation techniques such as earnings multiples, discounted cash flow analysis based on the most recent management accounts, forward looking forecasts and peer group review. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Mexican Grill Limited (unlisted private company). The valuation is based on the most recent transaction in the shares, which was made at arm's length on 12 December 2014. The valuation is tested against a listed 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 comparators of equivalent size and maturity.

Brigantes Energy Limited (unlisted private company). The fair value of the investment was reduced by a further 50% to 12.5 pence per share to reflect the steep fall in the price of oil and additional programme risk to its principal asset.

Corfe Energy (unlisted private company). Having previously been held at book cost, the fair value of the Investment was reduced by 75% to 12.5 pence per share to reflect the steep fall in the price of oil that, along with project delays, that have placed the exploration programme on its principal asset at risk.

Genagro Limited (unlisted private company). The fair value is drawn from the company's unaudited estimated NAV per share as disclosed in the company's interim accounts to 30 June 2014.

Vision Direct Group Limited (unlisted private company). The fair value of the shares has been increased by 100% to 0.58 pence per share following a valuation review in light of the company's progress against its projections for the financial year to 31 August 2015. The valuation was determined using a range of EV/Sales and EV/EBITDA ratios from listed peers, as well as reference to corporate activity within the sector.

FC Fund Managers Limited (unquoted). In line with IPEV guidelines, the fair value is drawn from the book costs of the investment, which was made on 21 August 2014.

	2015 Level 1 £'000	2015 Level 2 £'000	2015 Level 3 £'000	2015 Total £'000	2014 Level 1 £'000	2014 Level 2 £'000	2014 Level 3 £'000	2014 Total £'000
Investments	14,268	1,528	1,748	17,544	11,748	1,368	945	14,061

Reconciliation of Level 2 Investments

	2015 £'000	2014 £'000
Balance brought forward	1,368	283
Reclassification	-	-
Acquisitions	811	1,196
Sale proceeds	(676)	(311)
Realised gains	31	60
Movements unrealised	(6)	140
Balance carried forward	1,528	1,368

Reconciliation of Level 3 Investments

	2015 £'000	2014 £'000
Balance brought forward	945	719
Reclassification	*(83)	** (150)
Acquisitions	150	202
Sale proceeds	-	-
Realised losses	-	(50)
Movements unrealised	736	224
Balance carried forward	1,748	945

* The reclassification transfer represents Nektan Limited which is now listed.

** The reclassification transfer represents Outsourcery Group which is now listed.

8 Significant Interests

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

Imaginatik	4.59%
Mexican Grill	4.25%

9 Debtors

	2015 £000	2014 £000
Prepayments and accrued income	26	24

10 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Trade creditors	20	20
Accruals and deferred income	121	89
	141	109

11 Called up share capital

	2015 £000	2014 £000
Allotted, called-up and fully paid: 21,879,274 (2014 – 13,882,346) ordinary shares of 1p each	219	139

During the year, 68,085 shares were purchased through the buyback facility at a cost of £70,531. The acquired shares have been cancelled.

2013-14 Joint Offer for Subscription

During the year, the Company issued 2,334,132 ordinary shares (nominal value £23,341) through the 2013-2014 joint offer for subscription, which resulted in funds being received of £2,831,138. As marketing adviser and receiving agent to the Company, and in return for covering the costs of the joint offer, Hargreave Hale Limited was

entitled to 3.5% of the gross proceeds (£99,090), often referred to as the 'premium'. From this, Hargreave Hale Limited paid for the allotment of additional shares to investors with a value of £30,374, resulting in net fees payable to Hargreave Hale of £68,716. The offer closed on 25 September 2014.

Current Joint Offer for Subscription of Ordinary Shares

During the year, the Company issued 5,730,881 ordinary shares (nominal value £57,309) in a joint offer for subscription which resulted in funds being received of £6,323,289. As marketing adviser and receiving agent to the Company, and in return for covering the costs of the joint offer, Hargreave Hale Limited was entitled to 3.5% of the gross proceeds (£221,315), often referred to as the 'premium'. From this, Hargreave Hale Limited paid for the allotment of additional shares to investors with a value of £118,089, resulting in net fees payable to Hargreave Hale of £103,226. The offer will close at 12pm on 30 September 2015 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.

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

	At 1 March 2014	Cash Flows	At 28 February 2015
	£000	£000	£000
Cash at bank	2,717	3,992	6,709
	-----	-----	-----
	At 1 March 2013	Cash Flows	At 28 February 2014
	£000	£000	£000
Cash at bank	1,338	1,379	2,717
	-----	-----	-----

13 Net asset value per ordinary share

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

	Net asset value per share		Net assets attributable	
	2015	2014	2015	2014
	pence	pence	£000	£000
Ordinary shares (basic)	110.33	120.24	24,138	16,693
	-----	-----	-----	-----

The NAV per share is based on net assets at the year end and on 21,879,274 (2014: 13,882,346) 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 (2014: nil).

15 Notes to the Cash Flow Statement

(a) Reconciliation of operating profit to operating cash flows

	2015	2014
	£000	£000
Total (loss)/profit on ordinary activities before taxation	(509)	3,427
Realised (gain) on investments	(313)	(38)
Unrealised loss/(gain) on investments	430	(3,699)
(Increase) in debtors	(2)	(4)
Increase in creditors	32	19
	-----	-----
Net cash (outflow) from operating activities	(362)	(295)
	-----	-----

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

	2015	2014
	£000	£000
<i>Net financial investment:</i>		
Purchase of investments	(6,609)	(5,745)
Sale of investments	3,009	1,924
	-----	-----
	(3,600)	(3,821)
	-----	-----
	2015	2014
	£000	£000
<i>Financing:</i>		
Share buybacks	(71)	(414)
Issue of share capital	8,982	6,416
	-----	-----
	8,911	6,002
	-----	-----

16 Related party transactions

Hargreave Hale Limited

Giles 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 one non-executive director and the company secretary 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 assets of the Company, calculated and payable quarterly in arrears. Fees for the year are £274,418 (2014: £164,812) as detailed in Note 3. In relation to the other support functions described above, Hargreave Hale Limited also provides administration services, custody services, company secretarial services and one non-executive director, and received fees of £77,000 (2014: £77,000) in relation to these services. Of those fees, £86,528 (2014: £60,217) 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). No fees were waived between 1 March 2013 and 28 February 2014 or 1 March 2014 and 28 February 2015 under the indemnity.

On 3 October 2014, the Directors of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc announced the launch of a joint offer for subscription of new shares in both Hargreave Hale AIM VCTs.

2013-2014 Joint Offer for Subscription

During the year, the Company issued 2,334,132 ordinary shares (nominal value £23,341) through the 2013-2014 joint offer for subscription which resulted in funds being received of £2,831,138. As marketing adviser and receiving agent to the Company, and in return for covering the costs of the joint offer, Hargreave Hale Limited was entitled to 3.5% of the gross proceeds (£99,090), often referred to as the 'premium'. From this, Hargreave Hale Limited paid

for the allotment of additional shares to investors with a value of £30,374, resulting in net fees payable to Hargreave Hale of £68,716. The offer closed on 25 September 2014.

Current Joint Offer for Subscription of Ordinary Shares

During the year, the Company issued 5,730,881 ordinary shares (nominal value £57,309) in a joint offer for subscription which resulted in funds being received of £6,323,289. As marketing adviser and receiving agent to the Company, and in return for covering the costs of the joint offer, Hargreave Hale Limited was entitled to 3.5% of the gross proceeds (£221,315), often referred to as the 'premium'. From this, Hargreave Hale Limited paid for the allotment of additional shares to investors with a value of £118,089, resulting in net fees payable to Hargreave Hale of £103,226. The offer will close at 12pm on 30 September 2015 unless previously extended beyond this date, or earlier if the maximum subscription has been reached before then.

Giles Hargreave is responsible for the management of a number of unit trusts, including the Marlborough Special Situations Fund.

17 Financial instruments

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 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 26 to 30 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:

- Equities: fair value through the profit and loss account.
- UK gilts and corporate bonds: fair value through the profit and loss account.

Other financial assets comprise cash at bank of £6,708,847 (2014: £2,716,870) which is classified as 'loans and receivables measured at amortised cost'. Financial liabilities consist of trade creditors and accruals of £140,645 (2014: £109,485) which are classified as 'financial liabilities measured at amortised cost'.

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.

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

		2015	2014
		£000	£000
Equity	Fair value	15,473	12,000
Authorised unit trust	Fair value	1,528	1,368
Gilts/Bonds	Fair value	543	693
		-----	-----
		17,544	14,061
		-----	-----

17 Financial instruments

A 10% increase or decrease in the investment portfolio would have a £1,754,400 (2014: £1,406,100) impact on the profit and loss account.

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.

Interest rate risk

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

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

	28 February 2015			
	Fixed Rate £000	Variable Rate £000	Non-Interest Bearing £000	Total £000
Investments	543		17,001	17,544
Cash and cash equivalents		6,709		6,709
Other currents assets and current liabilities (net)			(115)	(115)
	-----	-----	-----	-----
Net assets	543	6,709	16,886	24,138
	-----	-----	-----	-----

	28 February 2014			
	Fixed Rate £000	Variable Rate £000	Non-Interest Bearing £000	Total £000
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
	-----	-----	-----	-----

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

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 2015, the Company held £6,708,847 on bank deposit.

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:

	2015	2014
	£000	£000
Investments (UK gilts and corporate bonds)	543	693
Cash & cash equivalents	6,709	2,717
Other net current (liabilities)	(115)	(85)
	-----	-----
	7,137	3,325
	-----	-----

Cash balances were held on deposit with RBS at 28 February 2015.

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.

Capital management policies and procedures

The current policy is to fund investments through equity. No future change to this policy is envisaged. As a public limited company, 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

	2015	2014
	Ord	Ord
	£000	£000
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:		
Final dividend of 4 pence for the year ended 28 February 2014	633	-
Paid per share:		
Interim dividend of 2 pence for year ended 28 February 2015	324	-
	-----	-----
	957	507
	-----	-----
Proposed per share:		
Final dividend of 4 pence for the year ended 28 February 2015	999	-
	-----	-----
Proposed per share:		
Final dividend of 4 pence for the year ended 28 February 2014	-	633
	-----	-----

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 3,190,101 ordinary shares being issued, raising gross proceeds of £3,566,526. The total raised to date under the offer is £9,889,815. The offer will close at 12pm on 30 September 2015 unless previously extended beyond this date, or earlier if the maximum subscription has been reached before then.

GLOSSARY OF TERMS

Net Asset Value (NAV)

The Net Asset Value (NAV) is the amount by which total assets exceed total liabilities, i.e. the difference between what the company owns and what it owes. It is equal to shareholders equity, sometimes referred to as shareholders' funds.

Qualifying Company or Qualifying Investment

A Qualifying Investment consists of shares or securities first issued to the VCT (and held by it ever since) by a company satisfying certain conditions. The conditions are detailed but include that the company must be a Qualifying Company, have gross assets not exceeding £15 million immediately before and £16 million immediately after the investment, apply the money raised for the purposes of a qualifying trade within a certain time period and not be controlled by another company. In any twelve month period the company can receive no more than £5 million from VCT funds and Enterprise Investment Schemes, and any other European State-aided risk capital source. The company must have fewer than 250 full time (or equivalent) employees at the time of making the investment. VCT funds raised after 5 April 2012 cannot be used by a Qualifying Company to fund the purchase of shares in another company

Total Return

The sum of the published NAV per share plus all dividends paid per share over the lifetime of the Company. This allows performance comparisons to be made between venture capital trusts.

VCT or Venture Capital Trust

A Venture Capital Trust or VCT is a company, broadly similar to an investment trust, which has been approved by HMRC and which subscribes for shares in, (or lends money to), small unquoted companies, including those quoted on AIM or certain ISDX (formally PLUS) markets. Under the VCT scheme, VCTs and their investors enjoy certain tax reliefs. The VCT scheme is designed to encourage investment in small unquoted companies. Individuals invest by holding shares in a VCT.

Company Information

Secretary and Registered Office

Stuart Brookes
Accurist House
44 Baker Street
London
W1U 7AL

Manager

Hargreave Hale Limited
Accurist House
44 Baker Street
LONDON
W1U 7AL

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Solicitors

Pinsent Masons LLP
30 Crown Place
London
EC2A 7EU

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

VCT Status Adviser

Robertson Hare LLP
4-6 Staple Inn
High Holburn
London
WC1V 7QH

Brokers

Singer Capital Markets Limited
One Hanover Street
London
W1S 1YZ

Company Registration Number

05941261 in England and Wales

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of Hargreave Hale AIM VCT 2 plc ("the Company") will be held at Accurist House, 44 Baker Street, London, W1U 7AL on 21 August 2015 at 11am for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 6 will be proposed as ordinary resolutions and 7 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 2015;
2. To receive and approve the directors' remuneration report for the year ended 28 February 2015;
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 2015;
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 approve a final dividend of 4 pence per ordinary share in respect of the year ended 28 February 2015.

Special Business

Ordinary Resolution

7. 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 £120,000, this authority to expire on the earlier of the conclusion of the Company's next Annual General Meeting in 2016 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.
8. THAT the deed of variation to the administration agreement on the terms set out in page 20 of the Annual Report and Accounts entered into between the Company and Hargreave Hale Limited be approved.

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 2016 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 (7) 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 of Directors

Stuart Brookes
Company Secretary

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

Date: 26 June 2015

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 Uncertificated Securities Regulations 2001, specifies that only those Shareholders registered in the register of members of the Company as at 6pm on 19 August 2015 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 19 August 2015 (or in the event that the meeting is adjourned, as at 6.00pm two days prior to the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting notwithstanding any provisions in any enactment, the Articles of Association of the Company or any other instrument to the contrary.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual (www.euroclear.com). CREST 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 Articles of Association 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.
2. As at 25 June 2015 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 24,975,509 ordinary shares, carrying one vote each. Therefore the total voting rights in the Company are 24,975,509.