HARGREAVE HALE AIM VCT 2 plc

Annual Report and Accounts
Year ended 28 February 2017

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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 fixed income securities and bank deposits) and non-qualifying equity investments on an opportunistic basis. The Company is managed as a Venture Capital Trust in order that shareholders in the Company may benefit from the tax relief available.

FINANCIAL HIGHLIGHTS

Ordinary Shares (as at 28/29 February):	2017	2016
Net asset value per share	109.86p	101.18p
Cumulative distributions paid per share since launch	49.00p	43.00p
Total return per share	158.86p	144.18p
Annual Returns per share (basic and diluted):		
Revenue return	(0.43)p	(0.98)p
Capital return	14.97p	(2.41)p
Combined return	14.54p	(3.39)p
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*	1.82%	2.28%
Performance Benchmark:	78.38	66.01
FTSE AIM All-share Index (results rebased to 100 at 6 April 2007)		

*Calculated as total expenses minus ad hoc legal costs and adjusted for trail commission written off, divided by year-end net assets.

The Glossary of Terms can be found on page 59 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 2017 the Net Asset Value (NAV) was 109.86 pence which after adjusting for the dividends paid gives a total return since inception of 158.86 pence. The gain per ordinary share for the year was 14.54 pence per share (comprising a revenue loss of 0.43 pence and capital gains of 14.97 pence). Total return for the period increased by 10.2% compared to a gain of 33.1% in the FTSE AIM All-share Total Return Index. Given the constraints placed on managers of VCT funds we are pleased with this performance.

INVESTMENTS

The investment manager, Hargreave Hale Limited, invested a further £5.52 million in 21 qualifying companies during the year. The fair value of Qualifying Investments at 28 February 2017 was £21.39 million invested in 64 AIM companies and 7 unquoted companies. £24.16 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 13.

DIVIDEND

An interim dividend of 2.00 pence was paid on 2 December 2016 (Interim 2016: 2.00 pence).

A final dividend of 4.00 pence is proposed (2016: 4.00 pence) which, subject to shareholder approval at the Annual General Meeting will be paid on 25 July 2017, to ordinary shareholders on the register on 16 June 2017.

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, 312,908 shares were purchased during the year at a weighted average price of 99.25 pence per share. A further 341,473 shares have been purchased since the year end at a weighted average price of 109.70 pence.

The Board continues to target a share price discount of 5% to 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.

JOINT OFFER FOR SUBSCRIPTION – 2015

On 17 November 2016 the joint offer for subscription for new shares in Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc (launched in December 2015) was closed with £11.5 million raised for Hargreave Hale AIM VCT 2 plc.

JOINT OFFER FOR SUBSCRIPTION – 2016

The Directors of the Company announced on 14 December 2016 the launch of a new joint offer for subscription for shares in both Hargreave Hale AIM VCTs to raise up to £10 million in Hargreave Hale AIM VCT 1 plc and up to £10 million in the Company. The offer was approved by shareholders of the Company at a general meeting on 12 January 2017 and was open to both new and existing shareholders.

The offer was fully subscribed and resulted in gross funds being received of £10 million and the issue of 8.96 million new shares in the Company.

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 88.88% and have satisfied all the relevant tests.

VCT REGULATION

In order to comply with EU regulations regarding State Aid, the VCT rules were subject to substantial changes in the budget on 8 July 2015, which came into effect on 18 November 2015. In the round we do not think these rules have greatly affected the Company, although we will no longer be able to make non-qualifying investments in companies listed on AIM or UK government bonds. We are able to continue to invest via the Marlborough Special Situations Fund and we are free to invest in companies listed on the main market.

BOARD CHANGES

Giles Hargreave stepped down as a director of the Company on 13 December 2016. I would like to take this opportunity to thank Giles for all his hard work on the Board. Following the resignation of Giles Hargreave, Oliver Bedford was appointed as a non-executive director of the Company on 13 December 2016.

ELECTRONIC COMMUNICATIONS

Following approval at a general meeting on 12 January 2017, the Company has adopted electronic communications. Your Board believes this is beneficial to the Company and its shareholders and will result in substantial cost savings and improved timeliness and transparency of communications.

CAPITAL REDUCTION

Following approval at a general meeting on 12 January 2017 the balance of the share premium account was cancelled on 18 May 2017 resulting in £37.5 million being transferred to the special reserve. Reserves available for distribution as at the date of this document are £7.9 million.

AUDIT TENDER

Mandatory audit tendering legislation states that the maximum period for which a firm can be appointed auditor of a public listed entity is 10 years. BDO LLP are approaching the maximum term and as such a tender process will be completed in the current financial year.

OUTLOOK

This year has started well with a further increase in NAV up until 31 May 2017 of 9.72 pence equivalent to 8.8%. Further successful fundraising during the past year has increased our net assets as at the present date to around £45m for the first time. This has led to greater diversity in our portfolio.

So far the investment climate post Brexit has remained surprisingly benign. However, it would be dangerous to be too complacent. Company valuations have benefited from the steady economic upswing of the past few years and AIM in particular has attracted interest, and consequently higher valuations, from investors seeking Inheritance Tax relief.

Less than half of our net assets at 28 February were invested in qualifying assets. Our main challenge therefore is to identify and invest in more high quality, VCT qualifying, opportunities. To this end we have been more active investing in private companies which now account for 8.8% of the portfolio. We are seeing some exciting opportunities in this field but will take a measured approach recognising that the work involved in this style of investment is more time consuming and these investments are typically early stage high risk companies; also there is rarely any secondary market liquidity until there is a change of control or a public market listing.

DAVID HURST-BROWN
Chairman

Date: 5 June 2017

BOARD OF DIRECTORS

DAVID HURST-BROWN

David worked for over 25 years in the City. Much of this time was spent within the corporate finance division of UBS Warburg, where he established a small companies business unit. David has chaired the Board of Hargreave Hale AIM VCT 2 plc since incorporation in 2006. He is also non-executive chairman of Foresight Solar and Infrastructure VCT plc.

OLIVER BEDFORD (Appointed as director 13 December 2016)

Oliver Bedford graduated from Durham University in 1995 with a degree in Chemistry. He served in the British Army for 9 years before joining Hargreave Hale in 2004. Oliver co-manages the investments with Giles Hargreave and supports the other unit trusts through the investment committee.

PHILIP CAMMERMAN

Philip has over 20 years' experience in managing engineering and high-tech industries and has worked in both the UK and the 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. 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 FCFM Group Limited.

GILES HARGREAVE (Retired as director 13 December 2016)

Giles Hargreave is the chairman of Hargreave Hale and the manager of the award winning Marlborough Special Situations Fund, which has returned more than 2,498% since he assumed responsibility for the fund in 1998 (source: Hargreave Hale Limited, 28 February 2017). He also co-manages the Marlborough UK Micro Cap Growth Fund, the Marlborough UK Nano-Cap Growth Fund and both VCTs.

STRATEGIC REPORT

The purpose of the strategic report is to inform shareholders on key matters and help them to assess how the Directors have performed in their duty to promote the success of the Company. The report has been prepared by the Directors in accordance with the requirements of Section 414A 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 and has been prepared in accordance with applicable legal requirements. The auditor's report is set out on pages 38 to 41.

THE COMPANY AND ITS BUSINESS MODEL

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

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 and can be found under the TIDM code "HHVT". The Company is premium listed.

In common with many other VCTs, the Company revoked its status as an investment company as defined in section 266 of the Companies Act 1985 on 20 September 2007 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 Company is an externally managed fund with a Board comprising of three non-executive directors. Hargreave Hale Limited acts as investment manager, administrator and custodian to the Company and provide the company secretary.

The Board has overall responsibility for the Company's affairs including the determination of its investment policy, however, the Board may exercise these responsibilities through delegation to Hargreave Hale as it considers appropriate.

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.

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; 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 four 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 NEX Exchange-quoted companies (formerly ISDX) and private companies that meet the investment criteria summarised below; and
  - vary in size from £50,000 to £1 million.
- Quasi-sovereign debt, bonds and other fixed income securities;
- Bank deposits that are readily realisable; and

- Non qualifying equity exposure in the form of equity exposure to UK and international equities through targeted investments made on an opportunistic basis 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 £8.6 billion under administration and £7.5 billion under managed accounts. Hargreave Hale has been managing investments in UK Small and Micro Cap companies for 19 years and VCTs for 13 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. 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 2,498% (to 28 February 2017) 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 14. The investment team manages approximately £4.0 billion, of which approximately £2.6 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 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 follows 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 additional non-qualifying equity exposure to UK and international equities through targeted investments made on an opportunistic basis. 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 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 their exposure to small companies indirectly, whilst the investment manager identifies opportunities to invest directly into small UK companies through a suitable number of Qualifying Investments.

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

BUSINESS REVIEW

The chairman's statement and investment manager's report on pages 3 to 4 and 13 to 14 respectively contain a balanced and comprehensive analysis of the business during the financial year and the position of the investments at the year end. The financial position of the Company at 28 February 2017 was strong with no debt or gearing.

KEY PERFORMANCE INDICATORS

At each board meeting, the Directors consider a number of performance measures to assess the investment manager's performance, thereby helping shareholders to assess how the Company is performing against its objectives. The key performance indicators (KPIs) are established industry measures and are as follows:

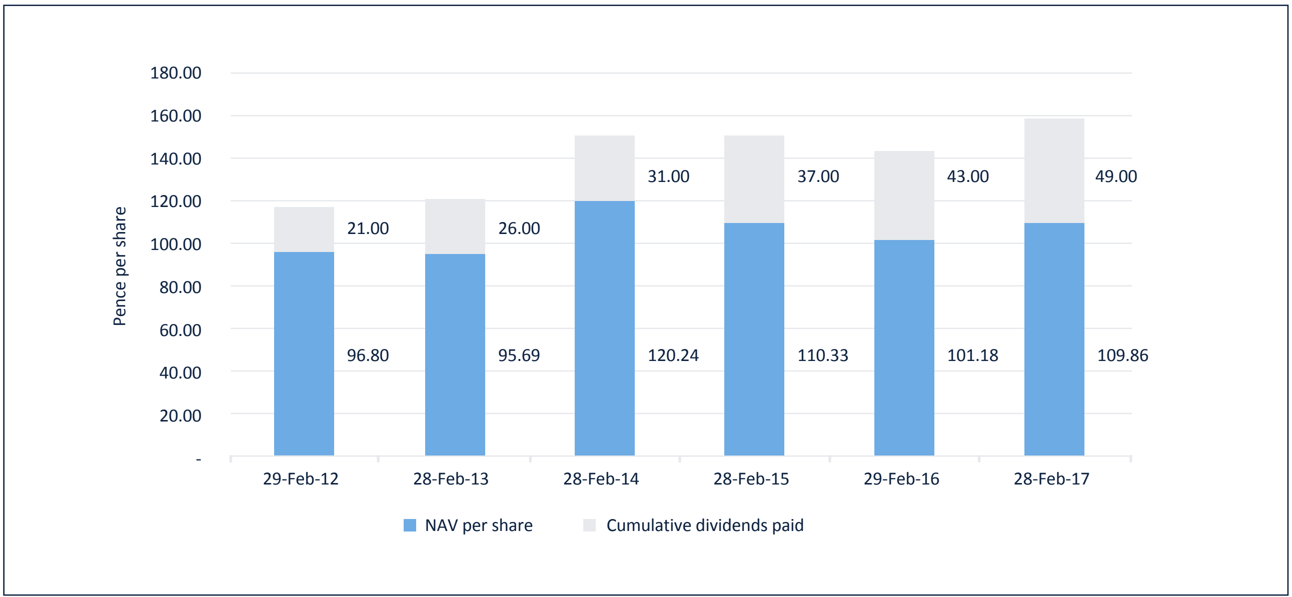
- Net asset value;
- Total return;
- Ongoing expense ratio;
- Earnings and dividend per share; and
- Percentage invested in Qualifying Companies

Commentary on the performance of these KPIs has been discussed in the chairman's statement and investment manager's report on pages 3 to 4 and 13 to 14 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 2.

OVERVIEW OF THE YEAR

In the financial year under review, net assets increased from £29.9m to £45.4m. In this period the NAV per share increased from 101.18p to 109.86p. This resulted in a gain to ordinary shareholders of 14.68 pence per share after adjusting for dividends paid of 6.00 pence per share.

NAV PER SHARE, CUMULATVE DIVIDENDS PAID AND CUMULATIVE TOTAL SHAREHOLDER RETURN

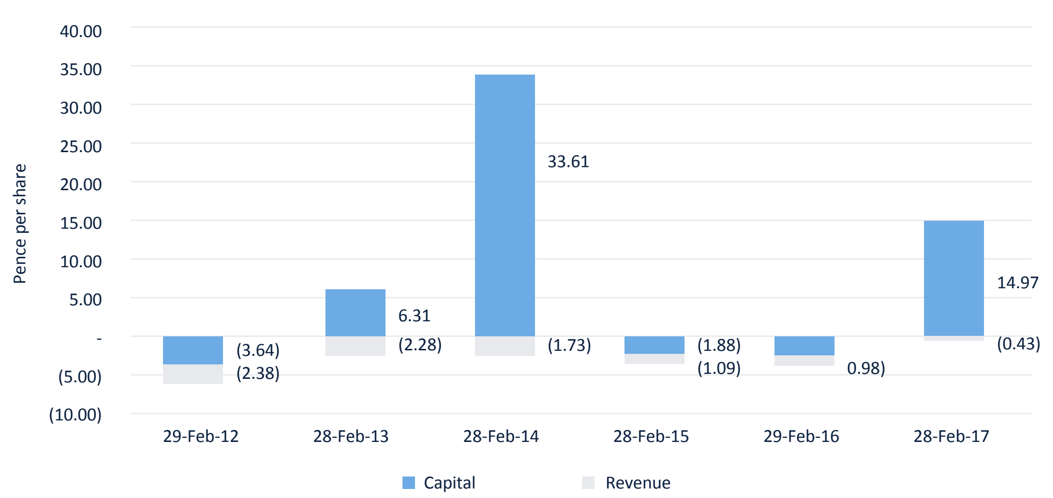


ONGOING EXPENSES

The ongoing charges of the Company for the financial year under review represented 1.82% (2016: 2.28%) of year end net assets, which remains competitive when compared with other AIM focused VCTs. Shareholders should note that this ratio has been calculated as total expenses minus ad hoc legal costs, adjusted for trail commission written off in the year and divided by year-end net assets.

EARNINGS PER SHARE

The Company's earnings per share for the year ended 28 February 2017, together with those of the previous five financial years are outlined in the graph below:



The Board remains pleased with the Company's performance.

DIVIDENDS

An interim dividend of 2.00 pence was paid on 2 December 2016 and a final dividend of 4.00p has been proposed.

INVESTMENTS

As a whole, during the year, the qualifying portfolio increased from £13.4m to £21.4m. The Company made 22 qualifying investments at a cost of £5.5m, of which 15 were investments into new Qualifying Companies.

For further details please refer to the investment manager's report on page 13.

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 amount standing to the credit of the consolidated reserves of the Company, less specified adjustments, exclusions and deductions. There are no plans to utilise this ability at the current time.

BUYBACKS

In total, 312,908 shares were purchased during the year at a weighted average price of 99.25 pence per share.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors acknowledge that they are responsible for the effectiveness of the Company's risk management and internal controls and periodically review the principal risks faced by the Company at the quarterly board meetings. The Board may exercise these responsibilities through delegation to Hargreave Hale Limited as it considers appropriate.

The principal risks facing the Company relate to the Company's investment activities and include risks stated below:

Risk	How the Board mitigates risk
Venture Capital Trust approval 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.	To reduce this risk, the Board has appointed the investment manager, who has significant experience in venture capital trust management and reports to the Board regularly throughout the year. In addition, to provide further formal assurance, the Board has appointed Philip Hare & Associates LLP to monitor compliance with regulations and provide half yearly compliance reports to the Board.
Investment risk – Many of the Company's investments are held in high risk companies, which are either listed on AIM or privately held.	The investment manager maintains a broad portfolio of investments and holds regular company meetings to monitor investments and identify potential risk. Regular board meetings and dialogue with the Directors support strong governance. Whilst tax legislation limits each Company's maximum exposure to a single Qualifying Investment to 15% of net assets (at book cost), the investment manager's preference for portfolio diversification means that Qualifying Investments rarely exceed 5% of 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.
Compliance risk – The Company is required to comply with the rules of the UK Listing Authority, the Companies Act, Accounting Standards and other legislation. The Company is also a small registered Alternative Investment Fund Manager ("AIFM") and has to comply with the requirements of the AIFM Directive.	Failure to comply with these regulations could result in a delisting of the Company's shares, financial penalties, qualified audit report or loss of shareholder trust. Board members and the investment manager have considerable experience of operating at senior levels within quoted businesses. Regulatory requirements are continually reviewed and the Board seek legal advice when appropriate.
Economic risk – Events such as economic recession and movement in interest rates could affect smaller companies' valuations.	The investment manager constantly monitors the markets and the portfolio companies and reports to the Board at each meeting. The risk that the value of a security or portfolio of securities could decline in the future is mitigated by holding a diversified portfolio, across a broad range of sectors.
Fraud – Fraud may occur enacted by a third party, the investment manager or administrator.	Internal controls are documented and periodically reviewed on a quarterly basis by senior management. The investment management and administration functions are segregated by department and location.

Operational risk – Failure of the investment manager/ administrator's systems or disruption to their business could result in the inability to provide accurate reporting.	The Board regularly reviews the system of internal controls, both financial and non-financial, operated by the Company and Hargreave Hale Ltd. Hargreave Hale Ltd has in place its own internal policies and procedures including a documented business continuity plan and a regularly tested disaster recovery plan to mitigate risk.
Reputational risk – Inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.	The investment manager operates a robust risk management system which is reviewed regularly to ensure controls remain effective in mitigating risks to the Company. Details of the Company's internal controls are on pages 34 to 35.
Liquidity risk – Investments in small companies are often illiquid and may be difficult to realise.	The funds liquidity is monitored on a monthly basis.
Outsourcing risk – Any task outsourced to an external company.	Reputable firms used and documents reviewed internally.

Additional risks and further details of the above risks and how they are managed are explained in Note 16 of the financial statements. Trends affecting future developments are discussed in the chairman's statement on page 3, and in the investment manager's report on page 13.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Board conducts the Company's affairs responsibly and expects the investment manager to consider social and environmental matters when appropriate, particularly with regard to investment decisions. The Company offers electronic communications where acceptable to reduce the volume of paper it uses.

HUMAN RIGHTS

The Board conducts the Company's affairs responsibly and expects the investment manager to consider human rights when fulfilling their role, particularly with regard to investment decisions.

LONG TERM VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks relating to the Company. This assessment has been carried out over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of five years, which was selected because it:

- falls in line with the Company continuation vote and investors minimum holding period to retain tax relief; and
- covers a sufficient period for all funds raised to comply with HMRC investment test rules.

The Board consider the viability of the Company as part of their continuing programme of monitoring risk. The Company has a detailed risk control framework, documented procedures and forecasting model in place to reduce the likelihood and impact of risk taking that exceeds the agreed levels by the Board. These controls are reviewed by the Board and Hargreave Hale on a quarterly basis.

The Board has considered severe but reasonable scenarios and the effect of any mitigating actions, the potential impact of these risks on the business model, future performance and liquidity of the Company.

The Directors consider the Company to be viable for a further five years for the following reasons:

- The Company maintains a broad portfolio of investments including approximately £15.0 million invested in non-qualifying investments and a further £9.0 million in cash. The Company therefore has sufficient liquidity and this is monitored on a monthly basis;

- The Company is well invested against the VCT status test and ended the year at 88.88% invested in qualifying companies. The Board anticipate that there will continue to be suitable qualifying investments available over the next five years;
- The ongoing expense ratio of the Company for the year end was 1.82%, which is competitive for the VCT sector;
- The financial position of the Company at 28 February 2017 was strong with no debt or gearing; and
- The Company has sufficient procedures in place to identify, monitor and control risk.

Based on this assessment the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years.

PROSPECTS

The prospects and future development of the Company are discussed in detail in the outlook section of the chairman's statement on page 4.

ADDITIONAL DISCLOSURES REQUIRED BY THE COMPANIES ACT

EMPLOYEES

The Company had no employees during the year. Board members are appointed according to knowledge and expertise. The Board currently comprises of three male non-executive directors who confirm they will consider gender diversity when making future appointments

By order of the Board of Directors.

STUART BROOKES
Company Secretary

Date: 5 June 2017

INVESTMENT MANAGER'S REPORT

INTRODUCTION

This report covers the 2016/17 financial year, 1 March 2016 to 28 February 2017. The manager's report contains references to movements in the Net Asset Value (NAV) per share and Total Return per share (NAV per share plus distributed earnings per share). Movements in the NAV per share do not necessarily mirror the earnings per share (EPS) reported in the accounts and elsewhere, which convey the profit after tax within the company within the reported period as a function of the weighted average number of shares in issue for the period.

INVESTMENT REPORT

Global equity markets had a strong year against a backdrop of significant political uncertainty and change. Politics aside, global economic growth was largely strong, with US GDP growth and low interest rates leading developed markets higher. Emerging markets also performed well, supported by recovering commodity prices.

The UK's decision to leave the European Union dominated the year; doubtless it will continue to do so this year and next. The decline in Sterling provided welcome support to the major UK indices as investors moved to re-price those companies with significant overseas earnings. By and large, VCT regulations channel us into small domestically focussed growth companies, so we were unable to fully benefit from the trend that persisted through the second half of our financial year, although we did derive some benefit through parts of our non-qualifying portfolio. The final quarter saw a notable uptick in risk sentiment within small cap equities.

The new financial year has already thrown up several risks, the French and UK elections being the most recent examples. No doubt there will be more; however, for now the UK economy feels strong enough, although we have seen some evidence of weakness within the housing market and elements of the casual dining sub-sector. We expect the UK consumer to be more challenged this year as real wage growth turns negative, with some weakness already showing up in consumer confidence data. On balance, the macro picture remains workable and we find most companies to be positive about the outlook; there seems to be reasonable demand for new capital to support their growth and development.

PERFORMANCE

In the twelve months to 28 February 2017, the NAV increased from 101.18p to 109.86p. 6.0p in dividends were paid, giving investors a total return of 14.68 pence per share, which translates to a gain of 14.5%. During the same period the FTSE AIM All-Share Total Return gained 33.1%.

The qualifying investments made a net contribution of 9.91 pence per share with 42 out of the 77 making gains, 6 marking time and 29 losing ground. The non-qualifying investments contributed 6.16 pence per share. The balance was a mixture of costs, income and small gains made through share buy backs.

DP Poland was the top performing qualifying investment (+115.4%, +1.87 pence per share). The company reported a series of strong updates over the year while demonstrating material traction as they roll out the Domino's Pizza proposition across Poland. In February, they announced seventeen consecutive quarters of double digit like for like system sales growth, with thirty-nine operational sites in fourteen different Polish towns and cities. The recent equity raise was well received and they are now on track to finish 2017 with fifty operational sites. Quixant (+98.9%, +1.32 pence per share) announced a very strong set of 2016 interims demonstrating strong organic sales growth, a better than expected contribution from the Densitron acquisition and cash flows ahead of expectations. Post (our) year end the company has since released its 2016 full year results which, once again, came in ahead of market expectations and triggered further upgrades to forecasts for this financial year. Ideagen (+70.2%, +1.24 pence per share) and Science in Sport (+91.7%, +1.18 pence per share) also performed well.

The biggest losses within the period came from TrakM8 (-71.3%, -1.86 pence per share) which announced a material profit downgrade after contract deferrals left the company exposed to an overhead that was outsized relative to the revised revenue outcome. Other losses came from Intercede (-59.3%, -0.59 pence per share), Mirada (-57.1%, -0.38 pence per share) and Microsaic (-85.1%, -0.37 pence per share), all of which posted poor updates.

We made 22 qualifying investments over the year, which included 7 additional investments into existing qualifying companies (1 private); 4 secondary placings into listed companies; 7 IPOs; and 4 private investments. We invested a total of £5.52 million into qualifying investments over the year.

Within the qualifying portfolio, a number of our investee companies experienced strong runs in the market, which led us to make partial disposals in Creo Directa Plus, DP Poland, ECSC, Imaginatik, Loop Up, Maxcyte and Surface Transforms.

Due to ongoing poor performance we exited investments in Sphere Medical, Tangent Communications, Nektan and Outsourcery.

PORTFOLIO STRUCTURE

The VCT is comfortably through the HMRC defined investment test and ended the period at 88.88% invested as measured by the HMRC investment test. By market value, the VCT had a 47.2% weighting to qualifying investments.

The allocation to non-qualifying equity investments increased from 18.4% to 20.6%, representing the funds on-going participation in non-qualifying equity investments. 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. The allocation marginally decreased from 13.1% last year to 12.0% this year. Fixed income as a percentage of the fund fell from 0.9% to 0.4% and cash fell from 23.4% to 20.3%.

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 VCT.

POST YEAR END UPDATE

Deal flow has been solid since year end with 5 additional qualifying investments being made in Dorcaster plc, Eagle Eye Solutions Group plc, Portr Ltd, Velocity Composites plc and Zoo Digital Group plc. We have a strong pipeline of deals we expect to complete in the coming weeks.

NAV performance has also been good post period end, with the NAV per share gaining 8.8% to 119.58 pence per share.

For further information please contact:

STUART BROOKES
Company Secretary

Registered office:
Hargreave Hale AIM VCT 2 plc,
Accurist House,
44 Baker Street
London W1U 7AL
01253 754740

Date: 5 June 2017

INVESTMENT PORTFOLIO SUMMARY

ORDINARY SHARE FUND
AS AT 28 FEBRUARY 2017

Qualifying Investments	Cost £000	Valuation £000	Valuation %	Net Assets %	Sector
Mexican Grill Ltd (A Preference Shares)**	277	1,154	3.17	2.54	Consumer Discretionary
Ideagen plc	190	1,100	3.03	2.43	Information Technology
Learning Technologies Group plc	534	1,068	2.94	2.36	Information Technology
DP Poland plc	324	987	2.72	2.18	Consumer Discretionary
Portr Ltd**	538	950	2.61	2.09	Information Technology
Quixant plc	120	908	2.50	2.00	Consumer Discretionary
Science in Sport plc	518	885	2.43	1.95	Consumer Staples
Zappar Ltd**	701	700	1.93	1.54	Information Technology
AnimalCare Group plc	100	664	1.83	1.46	Health Care
Creo Medical Group plc	559	660	1.82	1.46	Health Care
Fulcrum Utility Services Ltd	100	620	1.70	1.37	Utilities
Infinity Reliance Ltd (My 1st Years)**	501	500	1.38	1.10	Consumer Discretionary
Maxcyte Inc	142	467	1.28	1.03	Health Care
Gfinity plc	290	446	1.23	0.98	Information Technology
Hardide plc	227	420	1.16	0.93	Materials
Aquis Exchange Ltd**	401	400	1.10	0.88	Information Technology
ECSC Group plc	301	378	1.04	0.83	Information Technology
Loopup Group plc	237	349	0.96	0.77	Information Technology
ULS Technology plc	139	340	0.94	0.75	Information Technology
Faron Pharmaceuticals Oy	260	336	0.92	0.74	Health Care
Tristel plc	79	330	0.91	0.73	Health Care
Laundrapp Ltd**	301	300	0.82	0.66	Information Technology
Sanderson Group plc	200	280	0.77	0.62	Information Technology
TrakM8 Holdings plc	91	273	0.75	0.60	Information Technology
Eagle Eye Solutions Group plc	385	269	0.74	0.59	Information Technology
Freeagent Holdings plc	185	268	0.74	0.59	Information Technology
Premaitha Health plc	330	262	0.72	0.58	Health Care
Plastics Capital plc	202	261	0.72	0.58	Materials
CentralNic Group plc	207	241	0.66	0.53	Information Technology
Surface Transforms plc	201	238	0.65	0.52	Industrials
Everyman Media Group plc	172	233	0.64	0.51	Consumer Discretionary
Belvoir Lettings plc	335	232	0.64	0.51	Real Estate
Paragon Entertainment Ltd	200	227	0.63	0.50	Industrials
TLA Worldwide plc	150	225	0.62	0.50	Consumer Discretionary
Angle plc	252	213	0.59	0.47	Health Care
Osirium Technologies plc	301	212	0.58	0.47	Information Technology
Lombard Risk Management plc	92	201	0.55	0.44	Information Technology
E G Solutions plc	200	200	0.55	0.44	Information Technology
Satellite Solutions Worldwide Group plc	103	195	0.53	0.43	Telecommunication Services
Clearstar Inc	360	189	0.52	0.42	Industrials
Ilika plc	203	186	0.51	0.41	Industrials
Reneuron Group plc	262	183	0.50	0.40	Health Care
EKF Diagnostics Holdings plc	150	180	0.49	0.40	Health Care
Electric Word plc	185	179	0.49	0.39	Consumer Discretionary
Electrical Geodesics Inc	145	167	0.46	0.37	Health Care
Omega Diagnostics Group plc	129	159	0.44	0.35	Health Care

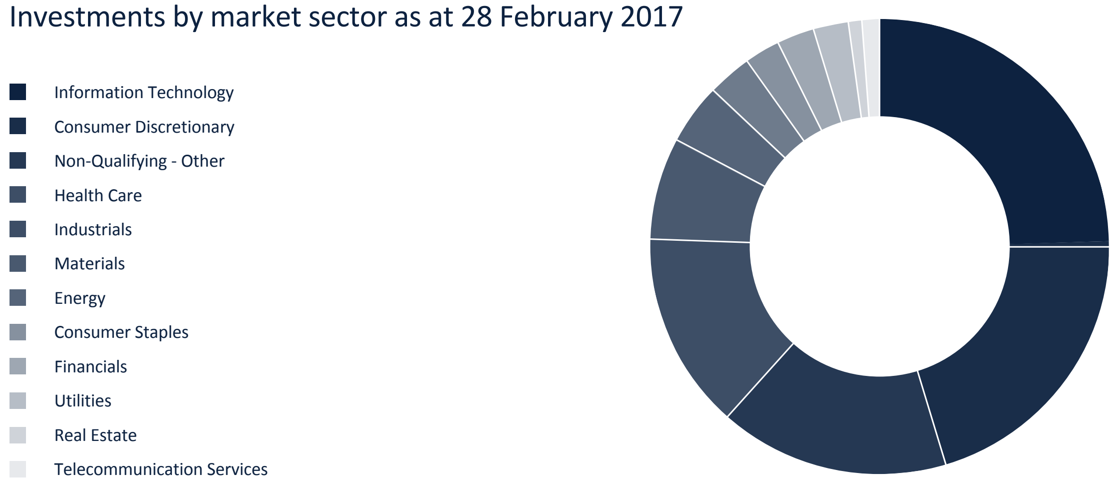
MartinCo plc	113	157	0.43	0.35	Real Estate
Medaphor Group plc	251	139	0.38	0.31	Consumer Discretionary
Intercede Group plc	91	138	0.38	0.30	Information Technology
Mexican Grill Ltd (Ordinary Shares)**	31	128	0.35	0.28	Consumer Discretionary
Cloudcall Group plc	234	128	0.35	0.28	Telecommunication Services
Kalibrate Technologies plc	161	120	0.33	0.27	Information Technology
Imaginatik plc	164	114	0.31	0.25	Information Technology
WANDisco plc	53	114	0.31	0.25	Information Technology
APC Technology Group plc	350	105	0.29	0.23	Information Technology
Mirada plc	95	95	0.26	0.21	Information Technology
Verona Pharma plc	71	93	0.25	0.20	Health Care
Audioboom plc	126	87	0.24	0.19	Information Technology
Lidco Group plc	146	84	0.23	0.19	Health Care
TP Group plc	125	71	0.20	0.16	Industrials
Porta Communications plc	200	70	0.19	0.15	Consumer Discretionary
Midatech Pharma plc	150	69	0.19	0.15	Health Care
Fusionex International plc	69	68	0.19	0.15	Information Technology
Haydale Graphene Industries plc	64	68	0.19	0.15	Materials
Genedrive plc	140	67	0.18	0.15	Health Care
Directa Plus plc	45	65	0.18	0.14	Materials
Flowgroup plc	54	54	0.15	0.12	Industrials
Synairgen plc	90	45	0.12	0.10	Health Care
Mycelx Technologies Corporation plc (Com SHS $0.025 REG S+ shares)	150	36	0.10	0.08	Industrials
Mporium Group plc	23	23	0.06	0.05	Information Technology
Microsaic Systems plc	20	20	0.06	0.05	Information Technology
Brigantes Energy Ltd*	–	–	–	–	Energy
Total Qualifying Investments	*14,895*	*21,393*	*58.83*	*47.16*	

Non-Qualifying Investments	Cost £000	Valuation £000	Valuation %	Net Assets %	Sector
MFM Special Situations Fund**	4,542	5,462	15.02	12.04	
Total – Unit Trusts	*4,542*	*5,462*	*15.02*	*12.04*	
UK Treasury Stock 0.0125% 2068	154	159	0.44	0.35	
Total – UK gilts	*154*	*159*	*0.44*	*0.35*	
RPC Group plc	588	689	1.89	1.52	Materials
Melrose Industries plc	444	660	1.82	1.46	Industrials
Dechra Pharmaceuticals plc	462	515	1.42	1.14	Health Care
BP plc	502	499	1.37	1.10	Energy
Atkins (WS) plc	463	495	1.36	1.09	Industrials
NMC Health plc	426	488	1.34	1.08	Health Care
Royal Dutch Shell plc	379	478	1.31	1.05	Energy
Cohort plc	176	462	1.27	1.02	Industrials
On the Beach Group plc	376	429	1.18	0.94	Consumer Discretionary
Merlin Entertainments plc	386	428	1.18	0.94	Consumer Discretionary
Sanne Group plc	331	421	1.16	0.93	Financials
JD Sports Fashion plc	265	316	0.87	0.70	Consumer Discretionary
Fulcrum Utility Services Ltd	56	302	0.83	0.67	Utilities
FCFM Group Ltd**	150	283	0.78	0.62	Financials

Lloyds Banking Group plc	285	275	0.76	0.61	Financials
Taylor Wimpey plc	299	261	0.72	0.57	Consumer Discretionary
DFS Furniture plc	288	248	0.68	0.55	Consumer Discretionary
Hilton Food Group plc	252	235	0.65	0.52	Consumer Discretionary
Clipper Logistics plc	234	227	0.63	0.50	Consumer Discretionary
Wizz Air Holdings plc	220	200	0.55	0.44	Consumer Discretionary
Learning Technologies Group plc	80	185	0.51	0.41	Information Technology
Micro Focus International plc	121	175	0.48	0.39	Information Technology
Sportech plc	130	156	0.43	0.34	Consumer Discretionary
Finsbury Food Group plc	70	137	0.38	0.30	Consumer Staples
Everyman Media Group plc	85	113	0.31	0.25	Consumer Discretionary
Horizon Discovery Group plc	124	110	0.30	0.24	Health Care
Regent Pacific Group Ltd	93	82	0.22	0.18	Health Care
Egdon Resources plc	140	79	0.22	0.17	Energy
Amerisur Resources plc	167	66	0.18	0.15	Energy
The Fulham Shore plc	38	65	0.18	0.14	Consumer Discretionary
Midatech Pharma plc	134	61	0.17	0.13	Health Care
Plexus Holdings plc	125	43	0.12	0.09	Energy
Reneuron Group plc	41	38	0.10	0.08	Health Care
Eagle Eye Solutions Group plc	44	33	0.09	0.07	Information Technology
Flowgroup plc	30	30	0.08	0.07	Industrials
Audioboom plc	31	25	0.07	0.06	Information Technology
Mycelx Technologies Corporation plc (Com SHS $0.025 + (D1) shares)	170	23	0.06	0.05	Industrials
Mexican Grill Ltd (A Preference Shares)**	3	10	0.03	0.02	Consumer Discretionary
Genagro Ltd**	22	2	0.01	–	Industrials
Mycelx Technologies Corporation plc (Com SHS $0.025 REG S+ shares)	8	1	–	–	Industrials
Total – Non-Qualifying equities	8,238	9,345	25.71	20.59	
Total – Non-Qualifying Investments	12,934	14,966	41.17	32.98	
Total investments	**27,829**	**36,359**	**100.00**	**80.14**	
Cash at bank		9,190		20.26	
Prepayments & Accruals		(182)		(0.40)	
Net Assets		**45,367**		**100.00**	

*Unquoted Company holding of less than £500
**Unquoted Companies

Investments by market sector as at 28 February 2017



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

	Listed	Headquartered	Registered
AIM listed Investments:			
Audioboom plc	UK	UK	Jersey
Clearstar Inc	UK	Cayman Islands	Cayman Islands
Electrical Geodesics Inc	UK	USA	USA
Faron Pharmaceuticals Oy	UK	Finland	Finland
Fulcrum Utility Services Ltd	UK	UK	Cayman Islands
Fusionex International plc	UK	UK	Jersey
Maxcyte Inc	UK	USA	USA
Mycelx Technologies Corporation plc (Com SHS $0.025 + (D1) shares)	UK	USA	USA
Mycelx Technologies Corporation plc (Com SHS $0.025 REG S+ shares)	UK	USA	USA
Paragon Entertainment Ltd	UK	Cayman Islands	Cayman Islands
Regent Pacific Group Ltd	UK	Hong Kong	UK
Royal Dutch Shell plc	UK	Netherlands	UK
Sanne Group plc	UK	Jersey	Jersey
WANDisco plc	UK	UK	Jersey
Wizz Air Holdings plc	UK	Jersey	Jersey
Unlisted private companies:			
Aquis Exchange Ltd	–	UK	UK
Brigantes Energy Ltd	–	UK	UK
FCFM Group Ltd	–	UK	UK
Genagro Ltd	–	Jersey	Jersey
Laundrapp Ltd	–	UK	UK
Mexican Grill Ltd (A Preference Shares)	–	UK	UK
Mexican Grill Ltd (Ordinary Shares)	–	UK	UK
Infinity Reliance Ltd (My 1st Years)	–	UK	UK
Portr Ltd	–	UK	UK
Zappar Ltd	–	UK	UK
Authorised unit trust:			
Marlborough Special Situations Fund	–	UK	UK

TOP TEN INVESTMENTS
As at 28 February 2017 (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. Forecasts are not shown for private companies. The net asset figures are drawn from audited accounts and net cash values are from published accounts in most cases.

Mexican Grill Ltd			**8550.0p**
Investment date	October 2009	Results for the year to	December 2015
Equity held	4.25%	Turnover (£'000)	21,314
Av. Purchase Price	2059.1p	Profit/(loss) before tax (£'000)	(475)
Cost (£'000)	311	Net Cash (£'000)	(668)
Valuation (£'000)	1,292	Net Assets December 2015 (£'000)	4,337
Income recognised in period (£)	0		

COMPANY DESCRIPTION
Mexican Grill is a private company that operates 36 fast casual California-Mexican restaurants that provide fresh, made to order cuisine for eat in or take-away, making it among the largest chains within its niche.

Learning Technology Group plc			**42.0p**
Investment date	April 2014	Forecasts for the year to	December 2017
Equity held	0.55%	Turnover (£'000)	49,600
Av. Purchase Price	20.6p	Profit/(loss) before tax (£'000)	10,000
Cost (£'000)	614	Net Cash (£'000)	(8,486)
Valuation (£'000)	1,253	Net Assets December 2016 (£'000)	30,710

COMPANY DESCRIPTION
Learning Technologies Group (LTG) provides a comprehensive and integrated range of e-learning services and technologies to corporate and government clients. LTG is making good progress towards its goal of establishing a substantial global organisation of specialist digital learning businesses from Europe, US, Latin America and Asia to form a market-leading technologies agency.

Ideagen plc			**80.0p**
Investment date	March 2011	Forecasts for the year to	April 2017
Equity held	0.75%	Turnover (£'000)	27,100
Av. Purchase Price	13.8p	Profit/(loss) before tax (£'000)	6,910
Cost (£'000)	190	Net Cash (£'000)	6,317
Valuation (£'000)	1,100	Net Assets April 2016 (£'000)	33,683

COMPANY DESCRIPTION
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.

DP Poland plc			56.0p
Investment date	November 2012	Forecasts for the year to	December 2017
Equity held	1.28%	Turnover (£'000)	10,900
Av. Purchase Price	18.4p	Profit/(loss) before tax (£'000)	(1,900)
Cost (£'000)	324	Net Cash (£'000)	6,001
Valuation (£'000)	987	Net Assets December 2016 (£'000)	11,210

COMPANY DESCRIPTION

DP Poland (Domino's Pizza Poland) is a fast food company that operates a sub-franchise of the Domino's Pizza brand in Poland. The company operate in fourteen Polish cities, with 16 corporate and 23 sub-franchised stores. They continue to roll out and anticipate finishing the current year with 50 operational sites, with a longer-term ambition of 100 stores by 2020.

Portr Ltd			1058.0p
Investment date	July 2015	Results for the year to	December 2015
Equity held	3.17%	Turnover (£'000)	-
Av. Purchase Price	599.5p	Profit/(loss) before tax (£'000)	-
Cost (£'000)	538	Net Cash (£'000)	816
Valuation (£'000)	950	Net Assets December 2015 (£'000)	819
Income recognised in period (£)	0		

COMPANY DESCRIPTION

Portr run's AirPortr, London's premium same day luggage transfer service. In its most basic form they deliver luggage through a flexible, transparent and cost efficient solution from London Airports to your hotel, office or home and vice versa. Additional functionality will launch later, allowing users to specify service enhancements such as carousel collection and delivery and off-airport check in solutions.

Fulcrum Utility Services Ltd			62.0p
Investment date	July 2010	Forecasts for the year to	March 2017
Equity held	0.89%	Turnover (£'000)	35,500
Av. Purchase Price	10.5p	Profit/(loss) before tax (£'000)	6,520
Cost (£'000)	156	Net Cash (£'000)	8,300
Valuation (£'000)	922	Net Assets March 2016 (£'000)	5,837

COMPANY DESCRIPTION

Fulcrum Utility Services provides utility infrastructure solutions. The company offers solutions that include gas connection, multi utility, meter installation, outlet pipe work, and gas disconnection services, renewable energy solutions and consulting services.

Quixant plc			348.0p
Investment date	May 2013	Forecasts for the year to	December 2017
Equity held	0.40%	Turnover ($'000)	102,300
Av. Purchase Price	46.0p	Profit/(loss) before tax ($'000)	15,800
Cost (£'000)	120	Net Cash ($'000)	(69)
Valuation (£'000)	908	Net Assets December 2016 ($'000)	34,306

COMPANY DESCRIPTION

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.

Science in Sport plc			92.0p
Investment date	April 2014	Forecasts for the year to	December 2017
Equity held	2.22%	Turnover (£'000)	15,200
Av. Purchase Price	53.9p	Profit/(loss) before tax (£'000)	(1,700)
Cost (£'000)	518	Net Cash (£'000)	6,130
Valuation (£'000)	885	Net Assets December 2016 (£'000)	10,819

COMPANY DESCRIPTION

Science in Sport manufactures and sells sports nutrition products. The company develops and distributes food, nutritional supplements, and beverages formulated to hydrate, energise, recover, and enhance sports performance.

Zappar Ltd			7445.0p
Investment date	December 2016	Results for the year to	March 2016
Equity held	3.12%	Turnover (£'000)	-
Av. Purchase Price	7460.0p	Profit/(loss) before tax (£'000)	-
Cost (£'000)	701	Net Cash (£'000)	884
Valuation (£'000)	700	Net Assets March 2016 (£'000)	248
Income recognised in period (£)	0		

COMPANY DESCRIPTION

Zappar is a small UK company in the rapidly evolving market for AR-enabling (Augmented Reality) product and infotainment experiences on handheld devices. Using proprietary patented technology, Zappar works closely with leading brands, license partners and retailers across the world to produce innovative, customisable solutions that link the digital world to the physical world.

RPC Group plc			912.5p
Investment date	August 2015	Forecasts for the year to	March 2017
Equity held	0.02%	Turnover (£'000)	2,714,000
Av. Purchase Price	778.4p	Profit/(loss) before tax (£'000)	256,667
Cost (£'000)	588	Net Cash (£'000)	(775,000)
Valuation (£'000)	689	Net Assets March 2016 (£'000)	893,900

COMPANY DESCRIPTION

RPC Group is a design and engineering company specialising in polymer conversion with centres worldwide. The company offers product design capabilities across all conversion technologies, and through its global manufacturing base provides a wide range of consumer products and technical components for the packaging and non-packaging markets.

CO-INVESTMENT

As at 28 February 2017, other funds managed by Hargreave Hale Ltd were also invested in all of the investments held within the Company's portfolio with the exception of the following: Electric Word plc, Omega Diagnostics Group plc, Paragon Entertainment Ltd, UK Treasury Stock 0.0125% 2068 and Tristel plc.

DIRECTORS' REPORT
For the year end 28 February 2017

The Directors present their report together with the audited financial statements of the Company for the year from 1 March 2016 to 28 February 2017, incorporating the corporate governance statement on pages 31 to 36. The principal activity of the Company has been outlined in the strategic report on page 6.

DIRECTORS

The Directors of the Company during the year were David Hurst-Brown (Chairman), Philip Cammerman, Giles Hargreave and Oliver Bedford. Giles Hargreave stepped down as a director of the Company on 13 December 2016 and Oliver Bedford was appointed. Brief biographical details are given on page 5.

DIRECTORS' INTERESTS

The Directors' interests (including those of connected persons) in the issued share capital of the Company are outlined in the directors' remuneration report on page 30. There is no minimum holding requirement that the Directors need to adhere to.

There have been no changes to the beneficial interests of the Directors between 28 February 2017 and the date of this report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DISCLOSABLE INTERESTS

No Director is under contract of service with the Company and, other than as disclosed in Note 15, 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.

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. The Board believes that the continued appointment of the investment manager remains in the shareholders' best interests.

Hargreave Hale Limited also provides administration services, custody services, company secretarial services and one non-executive director, Oliver Bedford.

REVENUE AND DIVIDENDS

The revenue loss after tax for the year amounted to £148,026 (2016: loss £247,629). An interim ordinary dividend of 2.00 pence per ordinary share was paid on 2 December 2016 (2016: 2.00 pence per share). The final dividend of 4.00 pence per share for the year ended 28 February 2017 is due to be paid on 25 July 2017 (2016: 4.00 pence per share).

SHARE VALUATION

On 28 February 2017, the bid price and the net asset value per ordinary share were 102.00 pence and 109.86 pence respectively.

CAPITAL STRUCTURE

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

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 65.

SUBSTANTIAL HOLDINGS IN THE COMPANY

At 28 February 2017, there were two holdings of 3% and over of the Company's ordinary share capital. These holdings related to Hargreaves Lansdown (Nominees) Limited and Hargreave Hale Nominees Limited, which were 6.15% and 5.81% respectively.

At 5 June 2017 the Company had not been notified of any significant interest exceeding 3% of the issued share capital.

SHARE BUYBACKS

During the year, the Company repurchased 312,908 ordinary shares (nominal value £3,129) at a cost of £312,899. The repurchased shares represent 1.06% of ordinary shares in issue on 1 March 2016. All repurchased shares were cancelled. A further 341,473 ordinary shares (nominal value £3,415) have been purchased since the year end at a total cost of £377,378.

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

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.

JOINT OFFER FOR SUBSCRIPTION – 2015

On 17 November 2016 the joint offer for subscription for new shares in Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc (launched in December 2015) was closed with £11.5 million raised for Hargreave Hale AIM VCT 2 plc.

JOINT OFFER FOR SUBSCRIPTION – 2016

The Directors of the Company announced on 14 December 2016 the launch of a new joint offer for subscription for shares in both Hargreave Hale AIM VCTs to raise up to £10 million in Hargreave Hale AIM VCT 1 plc and up to £10 million in the Company. The offer was approved by shareholders of the Company at a general meeting on 12 January 2017 and was open to both new and existing shareholders.

The offer was fully subscribed and resulted in gross funds being received of £10 million and the issue of 8.96 million new shares in the Company.

SHARES ISSUED

During the year, the Company issued 12,101,859 ordinary shares of 1 pence per share (nominal value £121,019) which resulted in funds being received of £13,155,057. The 3.5% premium of £460,427 was payable to Hargreave Hale Limited to cover the cost of additional shares allotted of £188,425 resulting in net fees payable to Hargreave Hale Limited of £272,002.

FINANCIAL INSTRUMENTS

The Company's financial instruments and principal risks are disclosed in Note 16 to the accounts.

VCT STATUS MONITORING

In November 2014, the Company appointed Philip Hare & Associates LLP (formerly Robertson Hare LLP) as advisors on, inter alia, compliance with legislative requirements. The Directors monitor the Company's VCT status through regular reports from Philip Hare & Associates LLP.

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 external audit was last put out to tender in 2006 when the current auditor, BDO LLP, was appointed. The lead audit partner was changed by rotation in 2013, her predecessor having served for a period of 5 years. Following the implementation of EU Audit Reform the Company is required to conduct a selection process for the appointment of the external auditor every 10 years. Accordingly, the audit committee will undertake a selection process for the appointment of the external auditor for the financial year ending 2018 so as to ensure independence and continued quality of judgement. I can confirm there are no contractual obligations that restrict the Company's choice of external auditor.

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

CORPORATE GOVERNANCE

The statement on corporate governance set out on pages 31 to 36 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.

POST BALANCE SHEET EVENTS

Post balance sheet events are disclosed in Note 18 to the financial statements on page 58.

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 3 to 4 and 13 to 14 respectively.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Accurist House, 44 Baker Street, London, W1U 7AL at 1.30pm on 20 July 2017. 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 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 9 will request the authority to allot up to an aggregate nominal amount of £100,000. This authority is in substitution for any existing authorities with the exception of the authority given to the Directors at the general meeting on 12 January 2017. The authority sought at the forthcoming Annual General Meeting will expire 15 months from the date that this resolution is passed, or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

DISAPPLICATION OF PRE-EMPTION RIGHTS

Special resolution number 10 will request the authority for the Directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. The authority relates to a maximum aggregate of £100,000 of the nominal value of the share capital.

This authority is in substitution for any existing authorities with the exception of the authority given to the Directors at the general meeting on 12 January 2017. 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 11 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 11. 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 2016 authority, which was on similar terms. During the financial year under review, the Company purchased 312,908 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 32,839 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: 5 June 2017

DIRECTORS' REMUNERATION REPORT
For the year ended 28 February 2017

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 38 to 41.

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 and compared to a peer group of VCTs with net asset values of similar size to the Company. The Board has decided to maintain the annual remuneration of the non-executive Directors at £18,000 and the Chairman at £22,500.

REMUNERATION RESPONSIBILITIES

As the Board consists entirely of non-executive directors it is considered appropriate that matters relating to remuneration are considered by the Board as a whole, rather than a separate remuneration committee. All directors are considered independent with the exception of Oliver Bedford who is an employee 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, Philip Cammerman was appointed on 28 September 2010 and Oliver Bedford was appointed on 13 December 2016. 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, Oliver Bedford shall retire and be subject to re-election on an annual basis as he is a director of the VCT and an employee of 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 Oliver Bedford, 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 overleaf shows the expected maximum payment that can be received per annum by each director for the year to 28 February 2018, 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 2018	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			
Oliver Bedford	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 the Companies Act 2006 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 20 July 2017, to receive and adopt the directors' remuneration report and to receive and approve the directors' remuneration policy.

At the Annual General Meeting held on 12 July 2016 the following votes were cast on the remuneration report:

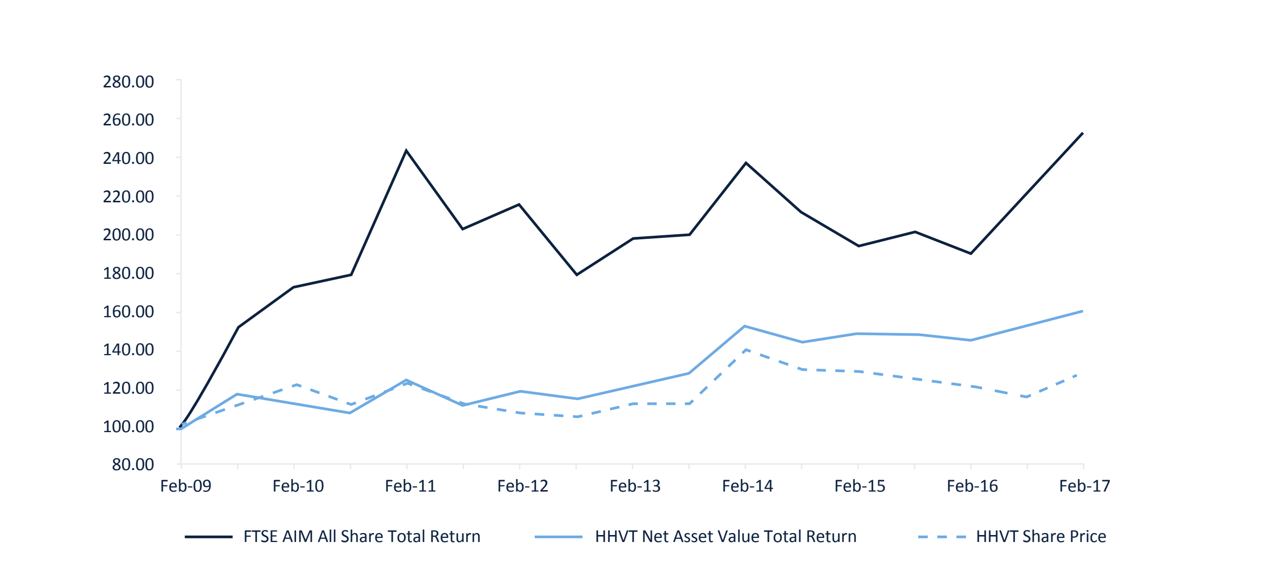
	Number of votes	% of votes cast
For	2,259,210	89.0%
Against	68,306	2.7%
Discretionary	210,144	8.3%
Total votes cast	2,537,660	100.0%
Number of votes withheld	39,354	

The remuneration policy was approved by shareholders at the Annual General Meeting held on 12 July 2016. Votes were cast as follows:

	Number of votes	% of votes cast
For	2,259,075	89.2%
Against	63,597	2.5%
Discretionary	210,144	8.3%
Total votes cast	2,532,816	100.0%
Number of votes withheld	44,198	

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 (rebased to 100) and share price (rebased to 100) over the last eight 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 2017 and the preceding financial year:

	Year ended 28 February 2017 £	Year ended 29 February 2016 £	Growth %
Directors' remuneration	58,500	58,500	–
Dividend paid	2,046,982	1,502,646	36.2
Share buybacks	312,899	371,795	(15.8)

	2017 Fees £	2017 Benefits in Kind £	2017 Total £	2016 Fees £	2016 Benefits in Kind £	2016 Total £
David Hurst-Brown (Chairman)	22,500	–	22,500	22,500	–	22,500
Giles Hargreave	14,054	–	14,054	18,000	–	18,000
Oliver Bedford	3,946	–	3,946	–	–	–
Philip Cammerman	18,000	–	18,000	18,000	–	18,000
Total*	**58,500**	**–**	**58,500**	**58,500**	**–**	**58,500**

*Excluding national insurance contributions

DIRECTORS' INTERESTS (AUDITED)

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	
	2017	2016
David Hurst-Brown	45,836	45,836
Oliver Bedford	6,543	4,298
Philip Cammerman	8,190	8,190

There have been no changes to the beneficial interests of Directors between 28 February 2017 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 27 to 30 was approved by the Board of Directors on 5 June 2017 and will be further subject to an advisory vote at the Annual General Meeting being held on 20 July 2017 and every year thereafter.

Signed on behalf of the Board of Directors.

DAVID HURST-BROWN
Chairman

5 June 2017

CORPORATE GOVERNANCE
For the year ended 28 February 2017

DIRECTORS' STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE ("THE CODE").

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

The Company has taken note of and implemented the 2014 UK Corporate Governance Code. During the year under review, the Board considers that the Company has complied with the recommendations of the Code except as disclosed below. A copy of the UK Corporate Governance Code can be found at www.frc.org.uk.

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 Oliver Bedford who is an employee 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 5.

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 D.2.1 respectively) on the grounds that the Board as a whole considers these matters. As all directors are non-executives, the Board has not appointed a senior independent non-executive director (Code A.4.1) as the Chairman performs the role.

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

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

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

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

The Articles of Association require that each director retires and stands for election at the Company's first 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.

David Hurst-Brown, Philip Cammerman and Oliver Bedford are 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 27 to 30.

ACCOUNTABILITY AND AUDIT

The Directors' responsibilities for the Company's accounting records and financial statements are set out on page 37. The independent auditor's report appears on pages 38 to 41.

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 three 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

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;

  - Compliance with stock exchange and other legal requirements; and
  - Reviewing the principal risks facing the Company over a sufficient time period to enable a suitable viability statement to be included in the strategic report.
- To review effectiveness of the systems for internal financial control;
- To monitor the integrity of the Company's internal financial controls;
- To review the effectiveness of payment authorisation controls;
- To monitor the integrity of safe custody arrangements;
- To consider annually whether there is a need for an internal audit function where no such function exists;
- To oversee the Company's relations with the external auditor;
- To consider, and make recommendations on the appointment, reappointment and removal of the external auditor;
- To assess the effectiveness and independence of the external auditors annually;
- To consider recommendations raised by the external 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.hargreaveaimvcts.co.uk 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 2017 the audit committee discharged its responsibilities by:

- Reviewing the Company's draft annual and half yearly results statements, interim management 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 and recommending necessary adjustments;
- Reviewing 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 the 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 Philip Hare & Associates LLP (formerly 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.

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. Mandatory audit tendering legislation states that the maximum period a firm can be appointed auditor of a public interest entity is 10 years. The Board are considering the process and confirm that a mandatory tender process will take place in the current year.

There was a rotation of the engagement partner for the year ending 28 February 2014 in accordance with the Auditors' Ethical Standards.

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 is reviewed annually by the Board and accords with the guidance set out in the FRC's "Risk Management and Internal Control and Related Financial and Business Reporting" document. 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 for non-audit services (2016: £2,563).

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)	4	4
Giles Hargreave (Retired 13 December 2016)	3	3
Philip Cammerman	4	4
Oliver Bedford (Appointed 13 December 2016)	1	1

	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.hargreaveaimvcts.co.uk. 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).

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: 5 June 2017

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. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Conduct Authority.

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 ("UK GAAP") (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;
- state whether they have been prepared in accordance with UK GAAP; subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a director's report, a strategic report and director's 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.

The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

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.

DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO DTR4

David Hurst-Brown (Chairman), Philip Cammerman and Oliver Bedford, the Directors, confirm to the best of their knowledge that:

- The financial statements have been prepared in accordance with UK GAAP 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.

For and on behalf of the Board

DAVID HURST-BROWN
Chairman

Date: 5 June 2017

INDEPENDENT AUDITOR'S REPORT
To the members of Hargreave Hale AIM VCT 2 plc

OUR OPINION ON THE FINANCIAL STATEMENTS
In our opinion the Hargreave Hale AIM VCT 2 plc financial statements for the year ended 28 February 2017, which have been prepared by the Directors in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice):

- give a true and fair view of the state of the Company's affairs as at 28 February 2017 and its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

WHAT OUR OPINION COVERS
Our audit opinion on the financial statements covers the:

- Income Statement;
- Balance Sheet;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Related Notes

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR
As explained more fully in the report of the Directors, 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.

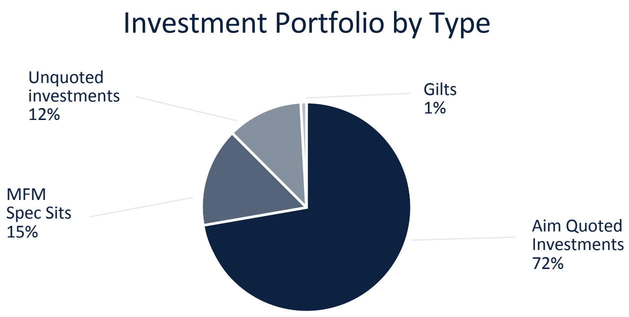
A description of the scope of an audit of Financial Statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

AN OVERVIEW OF THE SCOPE OF THE AUDIT INCLUDING OUR ASSESSMENT OF THE RISK OF MATERIAL MISSTATEMENT
Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the investment manager and administrator and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

INVESTMENTS
The outcome of our risk assessment was that the valuation of investments was considered to be the area with the greatest effect on the overall audit strategy including the allocation of resources in the audit.

The valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the investment manager, who is remunerated based on the net asset value of the Company.

We performed initial analytical procedures to determine the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement. A breakdown of the investment portfolio by nature of instrument type is shown below.



In respect of AIM Quoted Investments, Gilts and the MFM Special Situations Fund, we confirmed that bid price had been used and that there were no contra indicators, such as liquidity considerations, to suggest the price was not the most appropriate indication of fair value. 88% of the portfolio is valued at bid price.

12% of the portfolio is in unquoted private company investments; held in ordinary and preference shares. In respect of a sample of these investments, we:

- reviewed the valuation methodology and supporting documentation;
- considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines;
- verified the cost or price of recent investment to supporting documentation and reviewed the investment manager's determination of whether there were any reasons why the valuation did not remain appropriate;
- re-performed the calculation of the investment valuations;
- verified and benchmarked key inputs and estimates to independent information and our own research;
- challenged the assumptions inherent in the valuation of unquoted investments, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements;
- considered the economic environment in which the investment operates to identify factors that could impact the investment valuation; and
- for all investments tested, we developed our own point estimate where alternative assumptions could reasonably be applied and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.

REVENUE

We also considered revenue recognition to be a significant risk. Revenue predominately consists of dividends receivable from the portfolio companies. Revenue recognition is a significant audit risk as it is one of the key drivers of dividend returns to investors. In particular, in unlisted companies, dividends receivable can be difficult to predict.

We assessed the design and the implementation of the controls relating to revenue recognition. In respect of dividends receivable, we compared actual income to expectations set based on independent published data on dividends declared by the portfolio companies held. We tested the categorisation of dividends received from the portfolio companies between revenue and capital.

The audit committee's consideration of their key issues is set out on pages 32 to 34.

MATERIALITY IN CONTEXT

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. Importantly, misstatements below this level 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. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality - Based on 1% of invested assets	Assessing whether the Financial Statements as a whole present a true and fair view	▪ The value of investments ▪ The level of judgement inherent in the valuation ▪ The range of reasonable alternative valuation	360,000
Specific materiality – classes of transactions and balances which impact on revenue profits – Based on 10% of the gross expenditure	Assessing those classes of transactions, 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	▪ The level of net income return	80,000

We agreed with the audit committee that we would report to the committee all audit differences in excess of £4,000 as well as differences below that threshold 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.

In our opinion: based on the work undertaken in the course of the audit:

- 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 strategic report and directors’ report have been prepared in accordance with applicable legal requirements.

STATEMENT REGARDING THE DIRECTORS’ ASSESSMENT OF PRINCIPAL RISKS, GOING CONCERN AND LONGER TERM VIABILITY OF THE COMPANY

We have nothing material to add or to draw attention to in relation to:

- the Directors’ confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;

- the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 36, in relation to going concern and on pages 11 to 12 in relation to longer-term viability; and
- the part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code- specified for review by the auditor in accordance with Listing Rule 9.8.10 R(2)

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: 5 June 2017

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

INCOME STATEMENT

For the year ended 28 February 2017

	Note	Revenue £000	Capital £000	Total £000
Net gain on investments held at fair value through profit or loss	7	–	5,537	5,537
Income	2	286	15	301
		286	5,552	5,838
Management fee	3	(129)	(387)	(516)
Other expenses	4	(305)	(28)	(333)
		(434)	(415)	(849)
(Loss)/gain on ordinary activities before taxation		(148)	5,137	4,989
Taxation	5	–	–	–
(Loss)/gain after taxation		(148)	5,137	4,989
(Loss)/gain per share basic and diluted	6	(0.43)p	14.97p	14.54p

INCOME STATEMENT

For the year ended 29 February 2016 (Comparative Information)

	Note	Revenue £000	Capital £000	Total £000
Net loss on investments held at fair value through profit or loss	7	–	(300)	(300)
Income	2	146	–	146
		146	(300)	(154)
Management fee	3	(103)	(308)	(411)
Other expenses	4	(291)	–	(291)
		(394)	(308)	(702)
(Loss) on ordinary activities before taxation		(248)	(608)	(856)
Taxation	5	–	–	–
(Loss) after taxation		(248)	(608)	(856)
(Loss) per share basic and diluted	6	(0.98)p	(2.41)p	(3.39)p

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 was no other comprehensive income other than the gain/loss for the year.

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

BALANCE SHEET

As at 28 February 2017

Company registration number: 5941261
(in England and Wales)

	Note	2017 £000	2016 £000
Fixed assets			
Investments at fair value through profit or loss	7	36,359	23,031
Current assets			
Debtors	9	37	20
Cash at bank	12	9,190	6,994
		9,227	7,014
Creditors: amounts falling due within one year	10	(219)	(191)
Net current assets		9,008	6,823
Total assets less current liabilities		45,367	29,854
Capital and reserves			
Called up share capital	11	413	295
Share premium		34,246	21,484
Capital redemption reserve		10	7
Special reserve		2,891	5,250
Capital reserve – realised		628	1,367
Capital reserve – unrealised		8,529	2,653
Revenue reserve		(1,350)	(1,202)
Total shareholders' funds		45,367	29,854
Net asset value per share	13	109.86p	101.18p

These financial statements were approved and authorised for issue by the Board of Directors on 5 June 2017 and signed on its behalf by

DAVID HURST-BROWN
Chairman

5 June 2017

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 28 February 2017

	Called up Share Capital £000	Share Premium £000	Capital Redemption Reserve £000	Special Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000	Total £000
At 1 March 2016	295	21,484	7	5,250	1,367	2,653	(1,202)	29,854
Share buybacks	(3)		3	(313)				(313)
Share Issues	121	13,034						13,155
Issue Costs		(272)						(272)
Equity dividends paid (Note 17)				(2,046)				(2,046)
Realised losses on investments					(339)			(339)
Unrealised gains on investments						5,876		5,876
Management fee charged to capital					(387)			(387)
Arrangement Fee Income					15			15
Due Diligence investment costs					(28)			(28)
Revenue loss after taxation for the year							(148)	(148)
Total gain after taxation					(739)	5,876	(148)	4,989
At 28 February 2017	413	34,246	10	2,891	628	8,529	(1,350)	45,367

Reserves available for distribution are capital reserve realised, special reserve and revenue reserve. Total distributable reserves at 28 February 2017 were £2.17 million. The accompanying notes are an integral part of these financial statements.

For the year ended 29 February 2016 (Comparative Information)

	Called up Share Capital £000	Share Premium £000	Capital Redemption Reserve £000	Special Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000	Total £000
At 1 March 2015	219	13,118	3	7,124	(1)	4,629	(954)	24,138
Share buybacks	(4)		4	(372)				(372)
Share Issues	80	8,536						8,616
Issue Costs		(170)						(170)
Equity dividends paid (Note 17)				(1,502)				(1,502)
Realised gains on investments					1,676			1,676
Unrealised losses on investments						(1,976)		(1,976)
Management fee charged to capital					(308)			(308)
Arrangement Fee Income								
Revenue loss after taxation for the year							(248)	(248)
Total loss after taxation					1,368	(1,976)	(248)	(856)
At 29 February 2016	295	21,484	7	5,250	1,367	2,653	(1,202)	29,854

Reserves available for distribution are capital reserve realised, special reserve and revenue reserve. Total distributable reserves at 29 February 2016 were £5.42 million. The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 28 February 2017

	Note	2017 £000	2016 £000
Total gain/(loss) on ordinary activities before taxation		4,989	(856)
Realised loss/(gain) on investments		339	(1,676)
Unrealised (gain)/loss on investments		(5,876)	1,976
(Increase)/Decrease in debtors		(17)	6
Increase in creditors		28	50
Net cash (outflow) from operating activities		(537)	(500)
Purchase of investments		(16,778)	(11,321)
Sale of investments		8,987	5,534
Net cash (outflow) from investment activities		(7,791)	(5,787)
Share buybacks		(313)	(372)
Issue of share capital		12,883	8,446
Dividends paid	17	(2,046)	(1,502)
Net cash inflow from financing activities		10,524	6,572
Increase in cash	12	2,196	285
Opening cash	12	6,994	6,709
Cash movement		2,196	285
Closing cash		9,190	6,994

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

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 FRS 102 and with the Statement of Recommended Practice (SORP) for "Financial Statements of Investment Trust Companies" (the SORP).

Financial instruments

All investments are classified as fair value through profit or loss. Investments are measured initially and subsequently at fair value which is deemed to be bid market prices for listed investments and investments traded on AIM. Unquoted investments are valued using the most appropriate methodology recommended by the International Private Equity Venture Capital ("IPEV") guidelines.

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 holds the investment at cost for a period where there is considered to be no change in fair value.

Valuations of unquoted investments are reviewed on a six monthly basis and more frequently if events occur that could have a material impact on the investment. Where cost is no longer considered appropriate the Company will use a value indicated by a material arms-length transaction by an independent third party in the shares of a company. Where no such transaction exists the Company will use the most appropriate valuation technique including discounted cash flow analysis, earnings multiples, net assets and industry valuation benchmarks. All inputs are market observable with the exception of level C financial instruments (Note 7).

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. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional. Transaction costs are included in the initial book cost or deducted from the disposal proceeds as appropriate.

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.

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 taken to the unrealised capital reserve or realised capital reserve as appropriate.

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 transferred to the capital reserve realised.

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. Of investment management fees, 75% 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.

Trail commission

Trail commission previously due is held as a creditor until such time as claims are made by the relevant intermediary and supporting documentation provided. If claims are not received these amounts are written off after a period of six years.

Capital reserves
Realised profits and losses on the disposal of investments, due diligence costs and income in relation to private company 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.

Operating segments
There is considered to be one operating segment as reported to the chief operating decision maker being investment in equity and debt securities.

Taxation
Deferred tax is recognised in respect of all timing differences that have originated but not yet reversed at the balance sheet date. Deferred tax assets are only recognised to the extent that recovery is probable in the foreseeable future.

Current tax is expected tax payable on the taxable revenue for the period using the current tax rate. The tax effect of different items of income and expenditure is allocated between capital and revenue on the same basis as the particular item to which it relates.

Approved VCTs are exempt from tax on capital gains from the sale of fixed asset investments. The Directors intend that the Company will continue to conduct its affairs to maintain its VCT status, no deferred tax has been provided in respect of any capital gains or losses arising from the revaluation or disposal of investments.

Dividends
Only dividends recognised during the year are deducted from revenue or capital reserves. Final and interim dividends are recognised in the accounts when the Company's liability to pay them has been established.

Functional currency
In accordance with FRS 102 s.30, 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 the special reserve and dealt with in the statement of changes in equity. 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.

Legal form and principal activities
Details of the Company's legal form, nature and principal business activities are included in the strategic report on page 6 of this report. The Company's registered office is Accurist House, 44 Baker Street, London, W1U 7AL.

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 23.

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/losses on disposal of investments, due diligence costs and income from private company investments, permanent impairment of financial assets and 75% of the investment management fee are accounted for in the capital reserve realised.

Capital reserve unrealised
Unrealised gains and losses on investments held at the year-end arising from movements in fair value are taken to the capital reserve unrealised.

Revenue reserve
Net revenue profits and losses of the Company.

Key judgements and estimates
The preparation of the financial statements requires the Board to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Key estimation uncertainties mainly relate to the fair valuation of unquoted investments, which are based on historical experience and other factors that are considered reasonable including the transfer price of the most recent transaction on an arm's length basis. The estimates are under continuous review with particular attention paid to the carrying value of the investments. The process of estimation is also affected by the determination of fair value hierarchy described in note 7 to the financial statements.

2. INCOME

	2017 £000	2016 £000
Income from investments:		
UK dividends	272	130
Unfranked investment income	14	16
	286	146
Other income:		
Arrangement fees	15	0
Deposit interest	0	–
Total income	301	146

3. MANAGEMENT FEES

	2017 Revenue £000	2017 Capital £000	2017 Total £000	2016 Revenue £000	2016 Capital £000	2016 Total £000
Management fees	129	387	516	103	308	411
	129	387	516	103	308	411

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 cent per annum of the NAV of the Company, calculated and payable quarterly in arrears. At 28 February 2017, £144,920 (2016: £114,167) 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 2016 and 28 February 2017 and no fees were waived between 1 March 2015 and 29 February 2016 under the indemnity.

A performance related incentive fee will be payable at the rate of 20 per cent. of any dividends paid to shareholders in excess of 6p per ordinary share per annum, provided that the 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 2017.

4. OTHER EXPENSES

	2017 £000	2016 £000
Revenue expenses:		
Administration Fee	45	35
Legal & Professional	5	27
Other expenses	177	149
Directors' remuneration	60	59
Auditors' remuneration		
– for audit services	18	21
Capital expenses	28	–
Total expenses	333	291

Only directors are classified as key management personnel. The Directors' remuneration above includes national insurance contributions. Directors' remuneration excluding national insurance contributions is detailed in the directors' remuneration report on page 29.

The maximum aggregate directors' emoluments authorised by the Articles of Association are detailed in the directors' remuneration report on page 27.

5. TAX ON ORDINARY ACTIVITIES

The tax charge for the year is based on the standard rate of UK Corporation Tax of 20%.

	2017 Total £000	2016 Total £000
Profit/(loss) on ordinary activities before taxation	4,989	(856)
UK Corporation Tax 20% (2016: 20%)	998	(171)
Effect of non taxable gains/losses on investments	(1,107)	60
Effect of non taxable UK dividend income	(54)	(26)
Effect of current year losses carried forward	163	137
Current tax charge	–	–

At the 28 February 2017 the Company had tax losses carried forward of £3,190,799 (2016 – £2,371,999 – adjusted from previously published for addition error). It is unlikely that the Company will generate enough taxable income in the future to use these expenses to reduce future tax charges and therefore no deferred tax asset has been recognised.

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

	2017 Revenue pence	2017 Capital pence	2017 Total pence	2016 Revenue pence	2016 Capital pence	2016 Total pence
(Loss)/gain per ordinary share (basic and diluted)	(0.43)	14.97	14.54	(0.98)	(2.41)	(3.39)

Revenue return per ordinary share is based on a net revenue loss on ordinary activities after taxation of £148,026 (2016: loss £247,629) and on 34,327,158 (2016: 25,200,417) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on a net capital gain of £5,137,499 (2016: loss of £608,113) for the year and on 34,327,158 (2016: 25,200,417) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Total return per ordinary share is based on a net gain of £4,989,474 (2016: loss of £855,742) for the year and on 34,327,158 (2016: 25,200,417) 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	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Investments	26,310	16,877	9,890	5,876	159	278	36,359	23,031
Movement in year:								
Opening valuation	16,877	13,725	5,876	3,276	278	543	23,031	17,544
Purchases at cost	12,033	8,748	4,433	2,573	312	–	16,778	11,321
Sale proceeds	(6,755)	(4,722)	(1,630)	(562)	(602)	(250)	(8,987)	(5,534)
Realised (losses)/gains	(705)	1,243	197	431	169	2	(339)	1,676
Unrealised gains/(losses)	4,860	(2,117)	1,014	158	2	(17)	5,876	(1,976)
Closing valuation	26,310	16,877	9,890	5,876	159	278	36,359	23,031
Closing cost	21,268	15,634	7,468	4,468	154	275	28,890	20,377
Closing unrealised	5,042	1,243	2,422	1,408	5	3	7,469	2,654
Realised (loss)/gain on sales	(705)	1,243	197	431	169	2	(339)	1,676
Unrealised gain/(loss) on investments	4,860	(2,117)	1,014	158	2	(17)	5,876	(1,976)
(Loss)/gain on investments	4,155	(874)	1,211	589	171	(15)	5,537	(300)

Transaction Costs
During the year the Company incurred transaction costs of £65,997 and £18,748 on purchases and sales respectively. These amounts are included in gain/(loss) on investments as disclosed in the income statement.

Fair value measurement hierarchy
FRS 102 requires the classification of financial assets and financial liabilities according to a fair value hierarchy that reflects the significance of inputs used in making the fair value measurement.

The fair value hierarchy has the following levels:

- Level A: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level B: Inputs other than quoted prices included within Level A that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level C: If one or more of the significant inputs is not based on observable market data, the instrument is included in level C. The fair value of Level C 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 C.

Mexican Grill Ltd (unquoted)
The fair value of the investment has been maintained at £85.50, reflecting the transfer price of the most recent transaction in the shares (on an arm's length basis) in December 2014. The valuation is tested against a peer group by comparing the EV/EBITDA ratios in the current financial year, although we note the limited number of listed comparators of an equivalent size and maturity.

Brigantes Energy Ltd (unquoted)
The fair value of the investment has been written down to nil on the basis that there is no realistic expectation that there

will be a return from the investment. This has been treated as a permanent impairment and transferred to the capital reserve realised.

FCFM Group Ltd (unquoted)
The fair value was appraised to £1,353 per share in August 2016 reflecting the transfer price of the most recent transaction in the shares (on an arm's length basis).

Genagro Ltd (unquoted)
The fair value is drawn from the company's unaudited estimated NAV per share as disclosed in the shareholders update on 14 April 2016.

Portr Ltd (unquoted)
The fair value of the investment was appraised to £10.58 reflecting the transfer price of the most recent transaction in the shares (on an arms length basis).

Laundrapp Ltd (unquoted)
The fair value of the investment has been maintained at cost, £44.30 per share in accordance with EVCA guidelines for investments of less than one year.

Aquis Ltd (unquoted)
The fair value of the investment has been maintained at cost, £18.50 per share in accordance with EVCA guidelines for investments of less than one year.

Infinity Reliance Ltd (My 1st Years) (unquoted)
The fair value of the investment has been maintained at cost, £42.07 per share in accordance with EVCA guidelines for investments of less than one year.

Zappar Ltd (unquoted)
The fair value of the investment has been maintained at cost, £74.45 per share in accordance with EVCA guidelines for investments of less than one year.

	2017 Level A £'000	2017 Level B £'000	2017 Level C £'000	2017 Total £'000	2016 Level A £'000	2016 Level B £'000	2016 Level C £'000	2016 Total £'000
Investments	26,469	5,462	4,428	36,359	17,155	3,899	1,977	23,031

8. SIGNIFICANT INTERESTS

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

Imaginatik plc	3.74%	Mexican Grill Ltd	4.25%	Mirada plc	3.04%
Portr Ltd	3.17%	Zappar Ltd	3.12%		

9.DEBTORS

	2017 £000	2016 £000
Prepayments and accrued income	37	20

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £000	2016 £000
Trade creditors	13	20
Accruals and deferred income	206	171
	219	191

11. CALLED UP SHARE CAPITAL

	2017 £000	2016 £000
Allotted, called-up and fully paid: 41,296,035 (2016: 29,507,084) ordinary shares of 1p each.	413	295

During the year 312,908 ordinary shares were purchased through the buyback facility at a cost of £312,899. The repurchased shares represent 1.06% of ordinary shares in issue on 1 March 2016. The acquired shares have been cancelled.

During the year, the Company issued 12,101,859 ordinary shares (nominal value £121,019) in a joint offer for subscription, representing 41% of the opening share capital at prices ranging from 104.99p to 113.75p per share, resulting in gross funds being received of £13,155,057.

Further details of the Company's capital structure can be seen in note 1.

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 2016 £000	Cash Flows £000	At 28 February 2017 £000
Cash at bank	6,994	2,196	9,190

	At 1 March 2015 £000	Cash Flows £000	At 28 February 2016 £000
Cash at bank	6,709	285	6,994

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	
	2017 pence	2016 pence	2017 £000	2016 £000
Ordinary shares - Basic	109.86	101.18	45,367	29,854

Net asset value per share is based on net assets at the year end and on 41,296,035 (2016: 29,507,084) 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 (2016: nil).

15. RELATED PARTY TRANSACTIONS

Hargreave Hale Limited

Hargreave Hale Limited is considered to be a related party to the Company. Oliver Bedford, a non-executive director of the Company and a member of its key management personnel, is an employee of Hargreave Hale Limited. In addition Hargreave Hale Limited acts as investment manager, administrator and custodian to the Company and it provides the company secretary. All of the support functions performed by Hargreave Hale Limited are segregated by department and location and are independent of each other.

Hargreave Hale Limited in its capacity as investment manager of the fund receives annual fees of 1.5% per annum of the net asset value of the Company, calculated and payable quarterly in arrears. Fees for the year are £515,272 (2016: £411,258) as detailed in Note 3. In relation to the other support functions described above, Hargreave Hale Limited received fees of £90,000 (2016: £80,000). Of those combined fees, £153,253 (2016: £120,835) 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. No fees were waived between 1 March 2016 and 28 February 2017 under the indemnity.

16. 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 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 fixed income 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 pages 31 to 36 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 3 and 13 respectively.

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

1. Equities – fair valued through the profit and loss account.

2. UK gilts and corporate bonds – fair value through the profit and loss account.

Other financial assets comprise cash at bank of £9,190,413 (2016: £6,993,554) and accrued income and debtors of £36,947 (2016: £20,560), which is classified as 'loans and receivables measured at amortised cost'. Financial liabilities consist of trade creditors and accruals of £219,307 (2016: £191,052) 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 their nature the investments are in small companies traded on the AIM market; therefore, they carry 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:

		2017 £000	2016 £000
Equity	Fair value	30,738	18,854
Authorised unit trust	Fair value	5,462	3,899
Gilts/Bonds	Fair value	159	278
		36,359	23,031

A 10% increase or decrease in the investment portfolio would have a £3,635,900 (2016: £2,303,100) impact on the profit and loss account. A value of 10% has been used as a reasonable estimate for a change in the value of the listed portfolio, which makes up the majority of the investment portfolio.

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 made infrequently 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 2017			
	Fixed Rate £000	Variable Rate £000	Non-Interest Bearing £000	Total £000
Investments	159	–	36,200	36,359
Cash and cash equivalents	–	9,190	–	9,190
Other currents assets and current liabilities (net)	–	–	(182)	(182)
Net assets	159	9,190	36,018	45,367

	29 February 2016			
	Fixed Rate £000	Variable Rate £000	Non-Interest Bearing £000	Total £000
Investments	278	–	22,753	23,031
Cash and cash equivalents	–	6,994	–	6,994
Other currents assets and current liabilities (net)	–	–	(171)	(171)
Net assets	278	6,994	22,582	29,854

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

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 other than trade creditors and accruals of £219,307, liquidity risk is not considered material. As at 28 February 2017 the Company held £9,910,413 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. There have been no changes in the financial value of the Company during the year that are attributable to credit risk.

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:

	2017 £000	2016 £000
Investments – (UK gilts and corporate bonds)	159	278
Cash and cash equivalents	9,190	6,994
Other assets	37	20
	9,386	7,292

Cash balances were held on deposit with RBS at 28 February 2017.

Fair value of financial assets and financial liabilities
Equity investments and UK gilts and corporate bonds 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.

17. DIVIDENDS

	2017 Ord £000	2016 Ord £000
Paid per share:		
Final capital dividend of 4 pence for year ended 28 February 2015	–	1,002
Paid per share:		
Interim capital dividend of 2 pence for year ended 29 February 2016	–	500
Paid per share:		
Final capital dividend of 4 pence for year ended 29 February 2016	1,353	–
Paid per share:		
Interim capital dividend of 2 pence for year ended 28 February 2017	693	–
	2,046	1,502
Proposed per share:		
Final capital dividend of 4 pence for year ended 28 February 2017	1,761	–
Proposed per share:		
Final capital dividend of 4 pence for year ended 29 February 2016	–	1,347

18. POST BALANCE SHEET EVENTS

Issue of Equity
Following the year end, the offer for subscription has resulted in an additional 2,998,856 ordinary shares being issued, raising gross proceeds of £3,407,743.

Buybacks
Since the period end, a further 341,473 ordinary shares were purchased at a total value of £377,378.

New Investments
The Company has made significant investments in new companies since the period end as follows:

Qualifying companies
An investment of £618k has been made in Dorcaster plc, £501k in Zoo Digital Group plc, and £332k in Velocity Composites plc.

Non-qualifying companies
Investments have been made in Alfa Financial Software Holdings Ltd, Ascential plc, Eurocell plc, Just Eat plc and Medica Group plc at a total cost of £1,138k.

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 NEX (formally ISDX) 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.

SHAREHOLDER INFORMATION

The Company's ordinary shares (Code: HHVT) are listed on the London Stock Exchange. Shareholders can visit the London Stock Exchange website, www.londonstockexchange.com, for the latest news and share prices of the Company. Further information for the Company can be found on its website at www.hargreaveaimvcts.co.uk.

NET ASSET VALUE PER SHARE

The Company's NAV per share as at 31 May 2017 was 119.58 pence per share. The Company publishes its unaudited NAV per share on a weekly basis.

DIVIDENDS

Subject to approval at the Annual General Meeting on 20 July 2017, the Board has proposed the payment of a final dividend of 4.00 pence in respect of year ending 28 February 2017.

Shareholders who wish to have future dividends paid directly into their bank account rather than sent by cheque to their registered address can complete a mandate for this purpose. Mandates can be obtained by contacting the Company's registrar, Equiniti.

SELLING YOUR SHARES

Hargreave Hale AIM VCT 2 plc operates a share buy-back policy to improve the liquidity in its ordinary shares. Share buy-back policies are subject to the Act, the Listing Rules and tax legislation, which may restrict the VCTs ability to buy shares back in. The policy is non-binding and is at the discretion of the Board.

The buy-back policy targets a 5% discount to the last published NAV per share as announced on the London Stock Exchange through a regulatory news service provider. The discount is measured against the mid-price per share as listed on the London Stock Exchange and reflects the price at which the Company buys its shares off the market makers. The Company publishes its unaudited NAV per share on a weekly basis.

VCT share disposals settle two business days post trade if the shares are already dematerialised or placed into CREST ahead of the trade, or ten days post trade if the stock is held in certificated form.

VCT share disposals are exempt of capital gains tax when the disposal is made at arms' length, which means a shareholder must sell their shares to a market maker through a stockbroker or another share dealing service. Hargreave Hale has particular expertise in the sale of VCT shares and is able to act for VCT shareholders who wish to sell their shares. However, you are free to nominate any stockbroker or share dealing service to act for you. If you would like Hargreave Hale to act for you as their client (as opposed to a shareholder in the Company) then please contact Andrew Pang for further information (020 7009 4900, andrew.pang@hargreave.com).

Please note that Hargreave Hale will need to be in possession of the share certificate and a completed CREST transfer form before executing the sale. If you have lost your share certificate, then you can request a replacement certificate from the Company's registrar Equiniti. The registrar will send out an indemnity form, which you will need to sign. The indemnity form will also need to be countersigned by a UK insurance company or bank that is a member of the Association of British Insurers. Since indemnification is a form of insurance, the indemnifying body will ask for a payment to reflect their risk. Fees will reflect the value of the potential liability.

SHAREHOLDER ENQUIRIES:

For general shareholder enquiries, please contact Hargreave Hale Limited on 01253 754700 or by e-mail to aimvct@hargreave.com.

For enquiries concerning the performance of the Company, please contact the investment manager on 0207 009 4937 or by e-mail to aimvct@hargreave.com.

Electronic copies of this report and other published information can be found on the Company's website at www.hargreaveaimvcts.co.uk.

CHANGE OF ADDRESS

To notify the Company of a change of address please contact the Company's registrar at the address on page 61.

COMPANY INFORMATION

Directors
David Hurst-Brown, Chairman
Philip Cammerman
Oliver Bedford

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 6ZL

Solicitors
Howard Kennedy
No. 1 London Bridge
London
SE1 9BG

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

VCT Status Adviser
Philip Hare and Associates LLP
4-6 Staple Inn
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 20 July 2017 at 1.30pm for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 9 will be proposed as ordinary resolutions and 10 and 11 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 2017;
2. To receive and approve the directors' remuneration report for the year ended 28 February 2017;
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 2017;
4. To re-appoint BDO LLP as auditors to the Company and to authorise the directors to determine their remuneration;
5. To re-elect David Hurst-Brown as a director of the Company;
6. To re-elect Philip Cammerman as a director of the Company;
7. To re-elect Oliver Bedford as a director of the Company;
8. To approve a final dividend of 4.00 pence per ordinary share in respect of the year ended 28 February 2017.

Special Business

Ordinary Resolutions

9. THAT, 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 each in the capital of the Company ("Ordinary Shares") and to grant rights to subscribe for or convert any security into Ordinary Shares in the Company ("Rights") up to an aggregate nominal value of £100,000, this authority to expire on the earlier of the conclusion of the Company's next Annual General Meeting in 2018 and the expiry of 15 months from the passing of this resolution (unless previously revoked, varied or extended by the Company in general meeting), save 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 the expiry of such authority. The authority being sought under this resolution is in substitution for any existing authorities with the exception of that authority obtained at the general meeting of the Company held on 12 January 2017.

Special Resolutions

10. THAT, the directors be and are hereby empowered pursuant to section 570 and section 573 of the Act during the period commencing on the passing of this resolution and expiring on the conclusion of the Company's next annual general meeting in 2018 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), to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority given to directors pursuant to resolution 9 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, save that this authority shall allow the Company to make offers or agreements before the expiry which would or might require Ordinary Shares to be allotted or sold and the directors may allot equity securities or sell shares after the expiry in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. The power being sought under this resolution is in substitution for any existing powers, with the exception of that power obtained at the general meeting of the Company held on 12 January 2017.

11. THAT, in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms and in such manner as the directors may determine (either for cancellation or for retention as treasury shares for future re-issue, transfer or cancellation) provided that:

    a) the maximum aggregate number of Ordinary Shares authorised to be purchased shall not exceed 6,588,617 Ordinary Shares, or if lower, such number of Ordinary Shares (rounded down to the nearest whole Ordinary Share) as shall equal 14.99% of the issued share capital at the date of the passing of this resolution;

    b) the maximum price which may be paid for an Ordinary Share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

c) the minimum price which may be paid for an Ordinary Share shall be 1p (the nominal value thereof);

d) this authority shall expire at the conclusion of the Company's next Annual General Meeting in 2018 or on the expiry of 15 months following the passing of the resolution, whichever is the earlier (unless previously revoked, varied or renewed by the Company in general meeting); and

e) the Company may make a contract or contracts to purchase Ordinary Shares under this authority before the expiry of the authority which will or may be executed or completed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

Information regarding the Annual General Meeting, including the information required by section 311A of the Act, is available from http://www.hargreaveaimvcts.co.uk.

By order of the Board of Directors.

STUART BROOKES
Company Secretary

Registered Office:
Accurist House
44 Baker Street
London
W1U 7AL
01253 754740

Date: 5 June 2017

A member entitled to attend and vote at this meeting may appoint a proxy or proxies 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 notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 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 member from attending the meeting and voting in person.

A member may appoint more than one proxy, provided each proxy is appointed to exercise rights attached to different shares. Members may not appoint more than one proxy to exercise rights attached to any one share.

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

The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001 specifies that only those members registered in the register of members of the Company as at 6.30pm on 18 July 2017 or, in the event that the meeting is adjourned, on the register of members at 6.30pm on the day 2 days (excluding non-working 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 register of securities after 6.30pm on 18 July 2017 (or in the event that the meeting is adjourned, as at 6.30pm 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 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 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.

A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

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.

Under section 319A of the Companies Act 2006, the Company must answer at the Annual General Meeting any question a member asks relating to the business being dealt with at the Annual General Meeting unless:

- answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

In accordance with section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the Annual General Meeting 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://hargreaveaimvcts.co.uk.

Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditor no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

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

You may not use any electronic address provided either in this notice of meeting or any related documents (included in the form of proxy) to communicate with the Company for any purpose other than those expressly stated.

Note:

1. The following documents will be available for inspection at the registered office of the Company during usual business hours on a weekday (except Saturdays, Sundays and Public Holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes up to and during the meeting;

a) copies of the directors' letters of appointment;
b) the articles of association of the Company; and
c) the register of directors' interests in the shares of the Company.

2. As at 2 June 2017 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 43,953,418 carrying one vote each. Therefore the total voting rights in the Company are 43,953,418.

HARGREAVE HALE AIM VCT 2 PLC
(INCORPORATED IN ENGLAND AND WALES
UNDER THE COMPANIES ACT 1985
WITH REGISTERED NUMBER 05941261)