BRITISH SMALLER COMPANIES VCT2 PLC

Annual Financial Report Announcement for

the Year to 31 December 2013

British Smaller Companies VCT2 plc (“the Company”) today announces its audited results for the year to 31 December 2013.

Summary Financial Highlights

- An increase in Total Return of 4.6 per cent to 104.6 pence per ordinary share
- An increase in Net Asset Value of 4.6 pence per ordinary share prior to the payment of dividends, representing a 7.0 per cent increase on the opening Net Asset Value
- Total dividends paid in the year of 4.5 pence per ordinary share
- Total cumulative dividends paid since inception of 39.0 pence per ordinary share

Chairman’s Statement

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

The Total Return as at 31 December 2013 increased by 4.6 per cent to 104.6 pence per ordinary share.

Financial Results

The Net Asset Value increase is summarised as follows:

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

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

During the year to 31 December 2013 the Company has paid total dividends of 4.5 pence per ordinary share, bringing the total cumulative dividends paid since inception to 39.0 pence per ordinary share.

The Total Return, (being Net Asset Value plus cumulative dividends) has increased by 4.6 per cent from 100.0 pence to 104.6 pence per ordinary share.

Shareholder Relations

Dividends

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

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

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

Dividend Re-investment Scheme (DRIS)

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

Fundraising

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

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

Shareholder Relations

Your Board remains committed to enhancing Shareholder communications and continues to hold Shareholder workshops where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited (the Company's Fund Manager) and the CEOs of one or more of our investee companies. Our 19th Shareholder workshop was held at Central Hall Westminster on 12 February 2014 and achieved the highest ever attendance with approaching 200 Shareholders attending. Presentations at the workshop were made by David Hall on behalf of YFM Private Equity Limited, Mark Henley (Managing Director of President Engineering Limited) and Angela Lane (former chairman of Fishawack Communications). After lunch David Hall, David Bell and Paul Cannings, all of YFM Private Equity Limited, hosted a Question and Answer Session which was attended by over 70 Shareholders.

The Annual General Meeting of the Company will be held at 12.00 noon on 19 May 2014 at 33 St James Square, London, SW1Y 4JS.

Regulatory

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

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

Subsequent Events

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

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

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

Outlook

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

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

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

Richard Last
Chairman
28 March 2014

Fund Manager's Review

Introduction

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

There has been considerable further progress made by many of the businesses in the Company's portfolio during the year. The overall value gain from the investment and fixed income securities portfolio was £2.35 million, an increase of 20.6 per cent on the opening 31 December 2012 portfolio value, which comprises profits on disposals during the year of £0.54 million, deferred consideration gains of £0.06 million and an increase in the residual portfolio value of £1.75 million.

Investment Portfolio

The Company saw an effective net value gain of £2.37 million (20.8%) on the opening investment portfolio valuation at 31 December 2012, excluding movements due to investments and realisations. This increase includes deferred proceeds but excludes a £0.02 million value decrease on the gilt portfolio. This can be broken down into an unrealised value gain of £1.77 million (£1.36 million from the unquoted portfolio and £0.41 million from the AIM quoted portfolio) and £0.60 million of realised gains of which £0.54 million related to new disposals and £0.06 million related to deferred proceeds from disposals in previous periods. This is broken down in the table below:

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

Significant Investment Movements

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

- Retail display business, DisplayPlan Holdings Limited, saw a value increase of £0.64 million following strong trading results since the buyout in January 2012.
- Specialist provider of communication solutions in remote locations, Seven Technologies Holdings Limited, saw a value increase of £0.47 million following a solid first year of trading and the strategic acquisition of Datong plc in June 2013.
- Contract catering provider, Waterfall Services Limited, saw an increase of £0.27 million following strong trading results and several new contract wins.
- Supplier of value-add SME telecom services, Callstream Group Limited (formerly Bluebell Telecoms Group Limited), saw a value increase of £0.25 million after delivering cost synergies following previous acquisitions and disposing of non-core contracts in August 2013.

- PowerOasis Limited, provider of software to monitor and control remote hybrid power solutions, saw a fall in value of £0.14 million following a disappointing year where several promising trials have yet to convert into significant commercial contracts.

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

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

New Investments

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

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

The new investments during the year totalled £4.10 million.

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

- In December 2013 the Company invested £0.93 million into Leengate Holdings Limited, a wholesaler, stockist and distributor of industrial valves to fund the management buyout from the Linde Group.

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

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

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

Disposal of Investments

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

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

The most significant proceeds related to:

- In January 2013 £0.27 million was received on the purchase of AIM quoted Tikit Group plc by a trade buyer. The value increase was minimal as the gain had already been taken in the 31 December 2012 valuation but this represented an uplift on cost of £0.09 million.
- In June 2013 £0.70 million of non-qualifying loans to Seven Technologies Holdings Limited were repaid as part of the refinancing package ahead of its purchase of Datong plc.

- In August 2013 the Company realised its investment in healthcare software provider Digital Healthcare Limited via a trade sale to Emis Group plc for proceeds of £1.29 million and an increase over the 31 December 2012 valuation of £0.37 million. This crystallised a loss on cost of £1.79 million due to the failed original strategy to rollout services to the US market which had to be abandoned due to market downturn and changes to reimbursement codes.
- During the year the Company sold 45 per cent of its holding in Pressure Technologies plc for £0.29 million realising a gain on cost of £0.15 million.
- In November 2013 the £0.17 million investor loan to Waterfall Services Limited was repaid following a period of strong trading.

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

Outlook

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

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

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

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

David Hall
YFM Private Equity Limited
28 March 2014

Principal Risks

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

Economic Risk - events such as recession and interest rate fluctuations could affect smaller investee companies' performance and valuations.

Mitigation - As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy and a diversified portfolio operating in a range of sectors. The Fund Manager actively monitors investee performance which provides quality information for the monthly review of the portfolio.

Investment and Strategic Risk – Inappropriate strategy, poor asset allocation or consistently weak stock allocation may lead to underperformance and poor returns to Shareholders. The quality of enquiries, investments, investee company management teams monitoring, and the risk of not identifying investee company underperformance of the Company might also lead to under performance and poor returns to Shareholders.

Mitigation - The Board reviews strategy annually. At each of the (at least) quarterly Board meetings the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment and peer group activity. The Fund Manager carries out due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible a non-executive director will be appointed to the board of the investee company.

Loss of Approval as a VCT - the Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

Mitigation - one of the Key Performance Indicators monitored by the Company is the compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" in the financial statements.

Regulatory Risk – the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and International Financial Reporting Standards as adopted by the European Union. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Mitigation - The Fund Manager has procedures in place to ensure recurring Listing Rules requirements are met and actively consults with brokers, solicitors and external compliance advisors as appropriate. The key controls around the compliance are explained in the financial statements.

Reputational Risk – inadequate or failed controls might result in breaches of regulations or loss of Shareholder trust.

Mitigation - The Board is comprised of directors with suitable experience and qualifications who report annually to the Shareholders on their independence. The Fund Manager is well-respected with a proven track record and has a formal recruitment process to employ experienced investment staff. Allocation rules relating to co-investments with other funds managed by the Fund Manager have been agreed between the Fund Manager and the Company. Advice is sought from external advisors where required. Both the Company and the Fund Manager maintain appropriate insurances.

Operational Risk - failure of the Fund Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Mitigation - The Fund Manager has a documented disaster recovery plan.

Financial Risk – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Mitigation - The key controls around financial reporting are described in the financial statements.

Market/Liquidity Risk – lack of liquidity in both the venture capital and public markets. Investment in AIM quoted and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Mitigation - overall liquidity risks are monitored on an ongoing basis by the Fund Manager and on a quarterly basis by the Board. Sufficient investments in cash and fixed income securities are maintained to pay expenses as they fall due.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS").

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for the year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

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

The directors confirm to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy; and

- The Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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

Richard Last

Chairman

Statement of Comprehensive Income for the year to 31 December 2013

	Notes	2013 Revenue £000	2013 Capital £000	2013 Total £000	2012 Revenue £000	2012 Capital £000	2012 Total £000
Gain on realisation of investments		**-**	**596**	**596**	-	1,662	1,662
Gains (losses) on investments held at fair value		**-**	**1,748**	**1,748**	-	(622)	(622)
Income	2	**689**	**-**	**689**	594	-	594
Administrative expenses:							
Fund management fee		**(141)**	**(421)**	**(562)**	(116)	(346)	(462)
Other expenses		**(340)**	**-**	**(340)**	(320)	-	(320)
		(481)	**(421)**	**(902)**	(436)	(346)	(782)
Profit before taxation		**208**	**1,923**	**2,131**	158	694	852
Taxation	3	**-**	**-**	**-**	(4)	4	-
Profit for the year		**208**	**1,923**	**2,131**	154	698	852
Total comprehensive income for the year		**208**	**1,923**	**2,131**	154	698	852
Basic and diluted earnings per ordinary share	5	**0.46p**	**4.27p**	**4.73p**	0.43p	1.96p	2.39p

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

Balance Sheet at 31 December 2013

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

Statement of Changes in Equity for the year to 31 December 2013

	Share capital	Share premium account	*Other reserves	Merger reserve	Capital reserve	Investment holding gains losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2011	**2,426**	**4,427**	**90**	**5,525**	**6,885**	**(3,665)**	**294**	**15,982**
Revenue return for the year	-	-	-	-	-	-	*154*	*154*
Capital expenses	-	-	-	-	*(342)*	-	-	*(342)*
Investment holding loss on investments held at fair value	-	-	-	-	-	*(622)*	-	*(622)*
Realisation of investments in the year	-	-	-	-	*1,662*	-	-	*1,662*
Total comprehensive income for the year	-	-	-	-	1,320	(622)	154	852
Issue of share capital	*1,828*	*11,015*	-	-	-	-	-	*12,843*
*Issue costs***	-	*(726)*	-	-	-	-	-	*(726)*
Purchase of own shares	-	-	-	-	*(184)*	-	-	*(184)*
Issue of shares – DRIS	*17*	*90*	-	-	-	-	-	*107*
Dividends	-	-	-	-	*(1,428)*	-	*(294)*	*(1,722)*
Total transactions with owners	1,845	10,379	-	-	(1,612)	-	(294)	10,318
Realisation of negative goodwill	-	-	-	-	*106*	*(106)*	-	-
Realisation of prior year investment holding gains	-	-	-	-	*526*	*(526)*	-	-
Balance at 31 December 2012	**4,271**	**14,806**	**90**	**5,525**	**7,225**	**(4,919)**	**154**	**27,152**
Revenue return for the year	-	-	-	-	-	-	*208*	*208*
Capital expenses	-	-	-	-	*(421)*	-	-	*(421)*
Investment holding gain on investments held at fair value	-	-	-	-	-	*1,748*	-	*1,748*
Realisation of investments in the year	-	-	-	-	*596*	-	-	*596*
Total comprehensive income for the year	-	-	-	-	175	1,748	208	2,131
Issue of share capital	*504*	*2,964*	-	-	-	-	-	*3,468*
*Issue costs ***	-	*(178)*	-	-	-	-	-	*(178)*
Purchase of own shares	-	-	-	-	*(309)*	-	-	*(309)*
Issue of shares – DRIS	*47*	*239*	-	-	-	-	-	*286*
Dividends	-	-	-	-	*(1,800)*	-	*(283)*	*(2,083)*
Cancellation of share premium account net of costs	-	*(12,905)*	-	-	*12,896*	-	-	*(9)*
Total transactions with owners	551	(9,880)	-	-	10,787	-	(283)	1,175
Realisation of negative goodwill	-	-	-	-	*177*	*(177)*	-	-
Realisation of prior year investment holding losses	-	-	-	-	*(3,796)*	*3,796*	-	-
Balance at 31 December 2013	**4,822**	**4,926**	**90**	**5,525**	**14,568**	**448**	**79**	**30,458**

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants and the capital redemption reserve was created for the purchase and cancellation of own shares.

** Issue costs include both fundraising costs and costs incurred from the Company's dividend re-investment scheme.

The merger reserve was created to account for the difference between the nominal and fair value of shares issued as consideration for the acquisition of the assets and liabilities of British Smaller Technology Companies VCT plc. The reserve was created after meeting the criteria under section 131 of the Companies Act 1985 and the provisions of the Companies Act 2006 for merger relief. The merger reserve is a non-distributable reserve.

The special reserve (now included within the capital reserve – please see below) was initially created following the approval of the Court and a resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company. In addition to this, on 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of Court following the passing of a special resolution. The credit arising of £12,905,041, less legal costs of £9,247, has been transferred to a special reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied.

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

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

During the year a presentational adjustment has been made to the Statement of Changes in Equity, such that the special reserve and capital reserve are now shown in total. This has been done to allow for a clearer understanding of the movements during the period.

Statement of Cash Flows for the year ended 31 December 2013

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

Reconciliation of Profit before Taxation to Net Cash Outflow from Operating Activities

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

Notes to the Financial Statements for the year to 31 December 2013

1. Basis of Preparation

The accounts have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the measurement of investments at fair value through profit or loss.

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (SoRP) issued by the Association of Investment Companies in January 2009 to the extent that they do not conflict with IFRSs as adopted by the European Union.

The financial statements are prepared in accordance with the IFRSs and interpretations in force at the reporting date. The only new standard effective for the year ended 31 December 2013 which has had a material impact on the financial statements is IFRS 13 "Fair Value Measurement". Note 7 of the financial statements includes investments disclosed in the fair value hierarchy classification under IFRS 13 and includes the relevant fair value disclosures as required by IFRS 13. There has been no material change to the measurement of fair values of investments from the implementation of IFRS 13.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include amendments to IFRS 9, IFRS 10, IFRS 11 and IFRS 12, and amendments to IAS 27 and IAS 28. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the financial statements.

2. Income

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

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

3. Taxation

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

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

Deferred tax assets of £559,000 calculated at 20 per cent (2012: £500,000 calculated at 20 per cent) in respect of unrelieved management expenses (£2.797 million as at 31 December 2013 and £2.502 million as at 31 December 2012) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 274 of the Income Tax Act 2007, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

4. Dividends

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

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

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

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2013 is proposed. This dividend has not been recognised in the year ended 31 December 2013 as the obligation did not exist at the balance sheet date.

5. Basic and Diluted Earnings (Loss) per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to Shareholders of £2,131,000 (2012: £852,000 profit) and 45,070,587 (2012: 35,591,107) ordinary shares being the weighted average number of ordinary shares in issue during the year.

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

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

During the year the Company issued 5,510,680 ordinary shares. The Company has also repurchased 524,961 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of ordinary shares for the period that they were treasury shares.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2013 or

31 December 2012. Consequently, basic and diluted earnings per ordinary share, basic and diluted revenue return per ordinary share and basic and diluted capital return per ordinary share are the same for the years ended 31 December 2013 and 31 December 2012.

6. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per ordinary share is calculated on attributable assets of £30,458,000 (2012: £27,152,000) and 46,443,563 (2012: 41,457,844) ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 December 2013.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2013 or 31 December 2012. Consequently, basic and diluted Net Asset Value per ordinary share is the same for the year ended 31 December 2013 and 31 December 2012.

7. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 39.0 pence per ordinary share (2012: 34.5 pence per ordinary share) plus the Net Asset Value as calculated per note 6.

8. Events after the Balance Sheet Date

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

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

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

9. Financial Information

The financial information set out in this announcement for the year ended 31 December 2013 does not constitute full statutory accounts as defined in section 434 of the Companies Act 2006 but has been extracted from the Company’s statutory accounts for that period. Statutory accounts for the year ended 31 December 2013 will be delivered to the Registrar of Companies following the Company’s Annual General Meeting on 19 May 2014. Those accounts have been reported upon without qualification by the Company’s independent auditor and did not contain a statement under Section

498(2) or (3) of the Companies Act 2006.

10. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2013 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at www.hemscott.com/msn/do. They can also shortly be viewed on the Fund Manager's website at www.yfmep.com. Hard copies of the statutory accounts for the year ended 31 December 2013 will be distributed by post to Shareholders and will be available thereafter to members of the public from the Company's registered office.

11. Directors

The directors of the Company are Mr R Last, Mr R Pettigrew, and Mr P Waller.

12. Annual General Meeting

The Annual General Meeting of the Company will be held at 33 St James Square, London, SW1Y 4JS on 19 May 2014 at 12.00 noon.

13. Final Dividend for the year ended 31 December 2013

Further to the announcement of its final results for the year ended 31 December 2013, the Company confirms that, subject to its approval by Shareholders at the forthcoming Annual General Meeting to be held on 19 May 2014, the final dividend of 2.5 pence per ordinary share ("Final Dividend") will be paid on 9 June 2014 to those Shareholders on the Company's register at the close of business on 9 May 2014.

14. Dividend re-investment scheme ("DRIS")

The Company operates a dividend reinvestment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Final Dividend is the close of business on 23 May 2014.

For further information, please contact:

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