# Mobeus Income & Growth 2 VCT plc

A VENTURE CAPITAL TRUST

**Annual Report & Accounts**
for the year ended 31 March 2015

mobeus
EQUITY PARTNERS

**Mobeus Income & Growth 2 VCT plc, ("MIG2", the "Company" or the "Fund") is a Venture Capital Trust ("VCT") advised by Mobeus Equity Partners LLP ("Mobeus"), investing primarily in established, profitable, unquoted companies.**

### Objective of Company

The objective of the Company is to provide investors with a regular income stream, arising both from the income generated by companies selected for the portfolio and from realising any growth in capital.

### Dividend Policy

The Company seeks to pay dividends at least annually out of income and capital as appropriate, and subject to fulfilling certain regulatory requirements. More details are provided on pages 6 and 23.

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**WARNING TO SHAREHOLDERS –**

**– Boiler Room fraud and unsolicited communications to shareholders**

We are aware that from time to time our shareholders have received unsolicited telephone calls and/or mail which purports to come from the Company or to be authorised by the VCT.

Further information on boiler room scams and who to contact, should you believe that you have been approached by such a company, is included within the Shareholder Information section on page 65 of this Annual Report.

# Financial Highlights

### Annual results for the year ended 31 March 2015

- Net Asset Value ("NAV") and Share price Total Return per share for the year of 11.4% and 19.3% respectively.
- Net assets rose to £42.10 million.
- This has been an exceptional year for disposals. A total of £12.45 million was received as net cash proceeds from seven major realisations, compared with an original cost of £4.58 million.
- Two interim dividends were paid in respect of the 2015 financial year, of 14.00 pence per share paid on 20 October 2014, and 5.00 pence per share paid on 20 March 2015. This brings total dividends paid to date since inception of the current share class* to 42.00 pence per share.
- Seven new and four follow-on investments totalling £9.30 million have been made during the year, plus a further £7.90 million invested after the year-end.
- Liquidity has been increased by two successful fundraisings, raising a total of £10.58 million in the year, bringing liquidity at the year-end to £19.74 million.

Note: The above data does not reflect the benefit of income tax relief.
*The first allotment of the former "C" share class, now the current share class, took place on 5 January 2006.

### The NAV per share as at 31 March 2015 was 115.45 pence

The table below shows the recent past performance of the current share class, first raised in 2006 at an original subscription price of 100p per share before the benefit of income tax relief. Performance data for all fundraising rounds are shown in tables on pages 67 and 68 of this Annual Report and Accounts (the "Annual Report").

| Reporting date as at | Net assets (£m) | Net asset value (NAV) per share (p) | Share price (mid-market price) (p)[1] | Cumulative dividends paid per share (p) | Cumulative total return per share since launch (NAV basis) (p)[2] | (Share price basis) (p)[3] |
|---|---|---|---|---|---|---|
| 31 March 2015 | 42.10 | 115.45 | 104.50 | 42.00 | 157.45 | 146.50 |
| 31 March 2014[4] | 33.88 | 120.73 | 103.50 | 23.00 | 143.73 | 126.50 |
| 30 April 2013 | 25.70 | 106.75 | 70.30 | 18.00 | 124.75 | 88.30 |
| 30 April 2012 | 24.53 | 98.71 | 67.00 | 14.00 | 112.71 | 81.00 |
| 30 April 2011 | 24.86 | 96.16 | 62.00 | 10.00 | 106.16 | 72.00 |
| 30 April 2010 | 23.29 | 87.47 | 41.50 | 5.00 | 92.47 | 46.50 |

[1] Source: London Stock Exchange.

[2] NAV as at the reporting date plus cumulative dividends paid since fund launch.

[3] Mid-market share price as at the reporting date plus cumulative dividends paid since fund launch.

[4] Data relates to an 11 month period, as the Company shortened its accounting period by one month during the year.

The data in the table above excludes the benefit of any income tax relief.

# Chairman's Statement

I am pleased to present the annual results of Mobeus Income & Growth 2 VCT plc for the year ended 31 March 2015. References to the 2014 comparatives in my Statement cover the 11 months ended 31 March 2014, when the Company brought forward its year-end.

## Overview of performance

It has been a very positive year for the Company. The Net Asset Value ("NAV") Total Return of 11.4% (2014:17.8%) for the year was ahead of the Board's minimum average return target of 8% per annum.

These returns were the result of two contributing factors: firstly, there were seven profitable realisations, namely: ATG Media (a part sale), MachineWorks, Monsal, DiGiCo Global, EMaC, Focus Pharma and Youngman, for total cash proceeds of £12.45 million, delivering substantial gains over cost of £4.58 million. These contributed to overall realisations in the year of £14.47 million. Secondly, the Company achieved another year of good revenue returns.

At the end of 2014, your Company was rated 1st, 2nd and 1st over the previous 1, 3 and 5 years respectively in the Association of Investment Companies' ("AIC") analysis of NAV Cumulative Total Return for all Generalist VCTs. This was achieved largely as a result of the profitable realisations listed above and relatively low levels of liquidity held during those periods.

Further details of the calculations demonstrating the Company's performance for the year are contained in the Strategic Report on pages 5 and 6.

## Dividends

As a result of the substantial realisations during the year, the Company was able to pay a significant first interim capital dividend of 14.00 pence per share on 20 October 2014. A second interim dividend of 5.00 pence (2014: 5.00 pence), comprising 2.25 pence (2014: 0.20 pence) per share from capital and 2.75 pence (2014: 4.80 pence) per share from income was also paid on 20 March 2015, bringing the total dividends paid during the year to 19.00 pence (2014: 5.00 pence) per share.

The Company's dividend target set last year is 5.00 pence per share. Shareholders should note that the first interim dividend of 14.00 pence per share paid for 2015 arose from an exceptional phase of profitable realisations.

Accordingly, the Board's target for future dividends will be by reference to the second interim dividend of 5.00 pence per share paid this year.

## Investment portfolio

The portfolio has experienced a busy and highly successful year, marked by the profitable realisations but also substantial levels of new investment.

Cash proceeds totalling £13.15 million were received from 12 companies, which were either sold or repaid loans. Of this total, £12.45 million was received as cash proceeds from the seven substantial disposals referred to in the Performance Overview above. The balance of £0.70 million comprised loan repayments from companies held within the portfolio. Realised gains over the original cost of all the investments sold (£5.27 million) were £9.20 million.

The VCT has also maintained a steady rate of new investment, investing a total of £9.30 million (including £0.61 million which was previously held in an acquisition vehicle) during the year under review in 11 new and existing companies.

Full details of all of these transactions, and of substantial new investments following the year-end, are included in the Investment Review on pages 8 to 11.

A number of companies in the portfolio continue to perform strongly, although several also experienced lower earnings. The performance of the portfolio as a whole remains good, demonstrating the success of the Company's strategy of investing in profitable companies run by proven management teams. The current portfolio at the year-end was valued at £22.35 million (2014: £24.53 million).

At 31 March 2015, net assets were £42.10 million, comprising £19.97 million of investments (47.4% of net assets) and liquidity of £22.12 million (52.5% of net assets). £2.38 million of this liquidity was invested in three acquisition vehicles.

## Share buybacks

During the year ended 31 March 2015, the Company bought back 2.2% (2014: 3.1%) of its share capital in issue at the beginning of the year maintaining an average discount of 10%. Further details are included in the Strategic Report and the Directors' Report.

## Fundraising

The four Mobeus advised VCTs launched new offers for subscription for the 2014/15 tax year on 10 December 2014 ("the Offers"). For the first time, each of the VCTs made separate Offers to investors. This enabled investors to choose which Mobeus VCTs they wished to invest in, and how much to place in each, subject to the Offer(s) of their choice remaining open. I am pleased to report that the Company successfully raised the full £8 million amount offered earlier than anticipated, with the Offer closing on 10 March 2015.

The two recent fundraisings in 2014 and 2015 were undertaken, on the basis of expected cash flows over the following two years, to give the Company sufficient liquidity to fund new investments, dividends, expenses and share buybacks. This has resulted in a significantly higher level of liquidity than in previous years. This will initially have an adverse effect on the investment returns because interest income will be lower than the 2% Investment Adviser fee payable on the Company's net assets.

## Industry awards for the Investment Adviser

Your Board is pleased to report that the Investment Adviser was once again named VCT House of the Year for the third consecutive year at the *unquote" British Private Equity Awards 2014*. The award recognised the high level of consistency achieved by the Investment Adviser during the year in maintaining high standards in all areas of its activity including deals, exits, portfolio management and fundraising.

# Chairman's Statement

## Annual General Meeting

The Annual General Meeting of the Company will be held at 12 noon on Thursday, 10 September 2015 at 33 St James's Square, London SW1Y 4JS. Both the Board and the Investment Adviser look forward to welcoming shareholders to the meeting which will provide shareholders with the opportunity to ask questions and to receive a presentation from the Investment Adviser on the investment portfolio. The Notice of the meeting is included on page 69 to 71 of this Annual Report.

## Shareholder Communications

May I remind you that the Company continues to have its own website which is available at www.mig2vct.co.uk.

The Investment Adviser held its fifth annual shareholder event in January 2015, which was well received. The event provided a forum for around 270 shareholders from the four Mobeus VCTs to hear presentations from the Investment Adviser and to learn more about the investment activity in greater depth from the chairman of both Tharstern and Tessella and the managing director of Virgin Wines.

## Future prospects

Prospects over the near term remain positive with two sizeable investments in Jablite and CGI Creative Graphics International being completed after the year-end. The Investment Adviser has a healthy pipeline of prospective investment opportunities available. The Investment Adviser believes that conditions for both investment and divestment remain favourable.

The Budget in March this year introduced some further amendments to the VCT legislation, most of which are specifically aimed at enabling the scheme to gain continued approval under the European Commission's new State Aid guidelines.

The proposals remain subject to approval by the European Commission so the date when these proposals become legislation is uncertain, but is expected to be later in 2015. The precise details and full implications for the VCT's future investment programme will only be fully clear once the legislation is enacted. However, in the longer term, the Investment Adviser does anticipate some reduction to the current range of companies that the VCT considers as potential qualifying investments.

These uncertainties in timing and implication apply to new investments made by VCTs on or after 6 April 2015. Being mindful of protecting shareholders' interests, the Board has moved to preserve the Company's existing successful investment strategy. Following discussions with the Company's advisers, the VCT made separate investments into a further nine new acquisition vehicles prior to 6 April 2015. Our projections show that this will provide sufficient funds to meet the Company's estimated requirements for investment for the next two years at least. These companies have been established by the Investment Adviser to acquire target businesses on behalf of the Company and the other Mobeus VCTs. One of these acquisition vehicles, Duncary 16, has already been used to support the investment into Jablite following the year-end.

The Board continues to believe that its relatively low-risk investment strategy of investing only in profitable companies with strong cash flows mitigates some of the risks inherent when investing in smaller businesses and should continue to deliver attractive returns to shareholders over the medium to long term.

Finally, I would like to express my thanks to all shareholders for their continuing support of the Company. I look forward to speaking with some of you at the AGM and at the annual shareholder event in the first quarter of 2016.

Nigel Melville
*Chairman*
15 June 2015

# Strategic Report

## Introduction

The Directors are pleased to present the Strategic Report of the Company for the year ended 31 March 2015. The purpose of this Report is to inform shareholders and help them to assess how the Directors have performed their duty to promote the success of the Company.

The Report has been prepared by the Directors in accordance with section 414A of the Companies Act 2006 ("the Act").

## Company Objective

The Objective of the Company is to provide investors with a regular income stream, arising both from the income generated by the companies selected for the portfolio and from realising any growth in capital.

### Summary of Investment Policy

The VCT's policy is to invest primarily in a diverse portfolio of UK unquoted companies.

Investments are usually structured as part loan and part equity in order to receive regular income and to generate capital gains from trade sales and flotations of investee companies.

Investments are made selectively across a number of sectors, primarily in management buyout transactions (MBOs) i.e. to support incumbent management teams in acquiring the business they manage but do not own. Investments are primarily made in companies that are established and profitable.

The Company's cash and liquid resources may be invested to maximise income returns of instruments of varying maturities, subject to the overriding criterion that the risk of loss of capital is minimised.

Risk is further spread by investing in a number of different businesses across different industry sectors. Investments are made selectively, primarily in MBOs in companies that are established and profitable. The VCT aims to invest in larger, more mature, unquoted companies through investing alongside three other VCTs advised by Mobeus with similar investment policies. This enables the VCT to participate in combined investments by the Investment Adviser of up to £5 million into each business per year.

The Company aims to maintain around 70% of net funds raised in qualifying investments. Uninvested funds are held in a portfolio of readily realisable interest-bearing investments and deposits.

The full text of the Company's Investment Policy is available on page 19 of this Annual Report.

## Business model

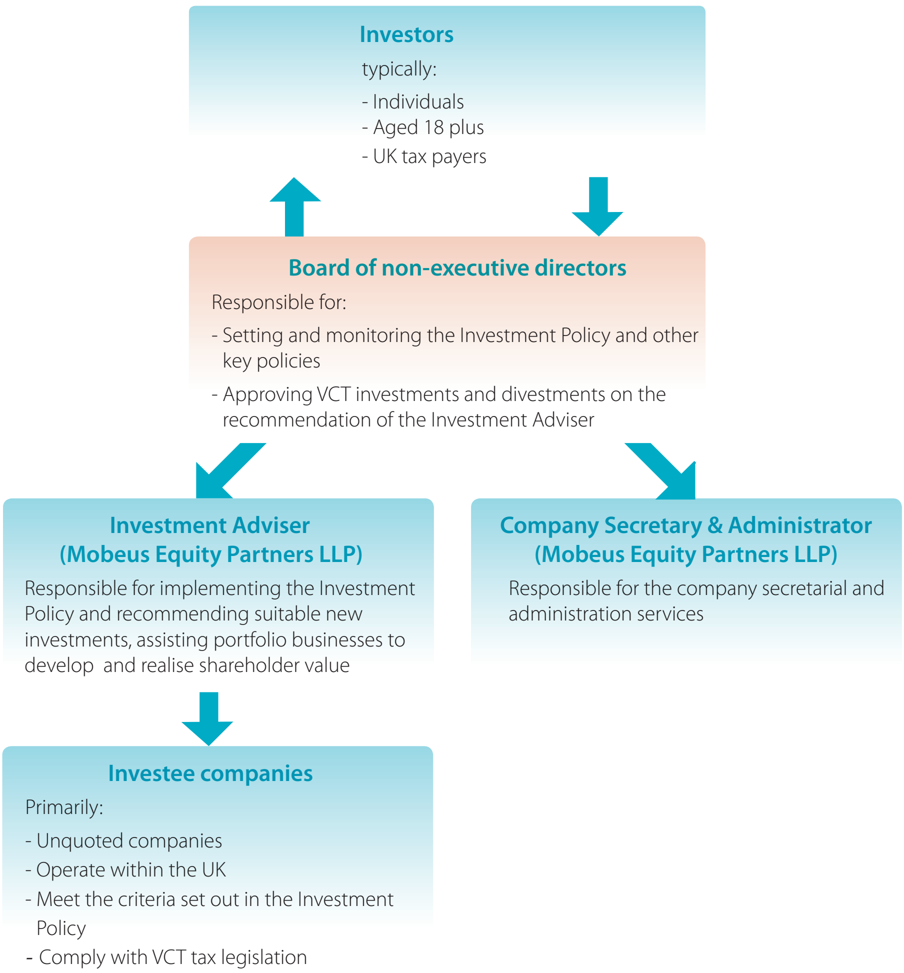
The Company is a Venture Capital Trust (VCT). Its Objective and Investment Policy are designed to ensure that the VCT continues to qualify and is approved as a VCT by HM Revenue & Customs ("HMRC") whilst maximising returns to shareholders from both income and capital. One of the rules to remain a VCT is that it must remain a fully listed company on the London Stock Exchange, and thus must also comply with the listing rules governing such companies.

The Company is an externally advised fund with a Board comprising non-executive Directors. The Board has overall responsibility for the Company's affairs including the determination of its Investment Policy. Investment and divestment proposals are originated, negotiated and recommended by the Investment Adviser and are then subject to review and approval by the Directors. Investment management and operational support are outsourced to external service providers (including registrars and brokers) with the key strategic and operational framework and key policies set and monitored by the Board.

Individuals invest in the Company to benefit from both income and capital returns generated by investment performance. By investing in a VCT they also receive immediate income tax relief (currently 30% of the amount subscribed for new shares by an investor), as well as tax-free dividends received from the Company and are not liable for any capital gains tax upon the eventual sale of the shares.

The Company's investee companies are primarily unquoted businesses and operate in the UK. These businesses fulfil the criteria and characteristics as set out in the Investment Policy.

The Company's business model is set out in the diagram below.



# Strategic Report

## Performance

### Key Performance Indicators used to measure performance

The Board has identified six key performance indicators that it uses in its own assessment of the Company's progress. These are intended to provide shareholders with sufficient information to assess how the Company has performed against its Objective in the year to 31 March 2015 and over the longer term, through the application of its investment and other principal policies:

### 1. Annual and cumulative returns per share for the year

### Total shareholder returns per share for the year

The Net Asset Value ("NAV") and share price total return per share for the year ended 31 March 2015 were 11.4% and 19.3% respectively, as shown below:

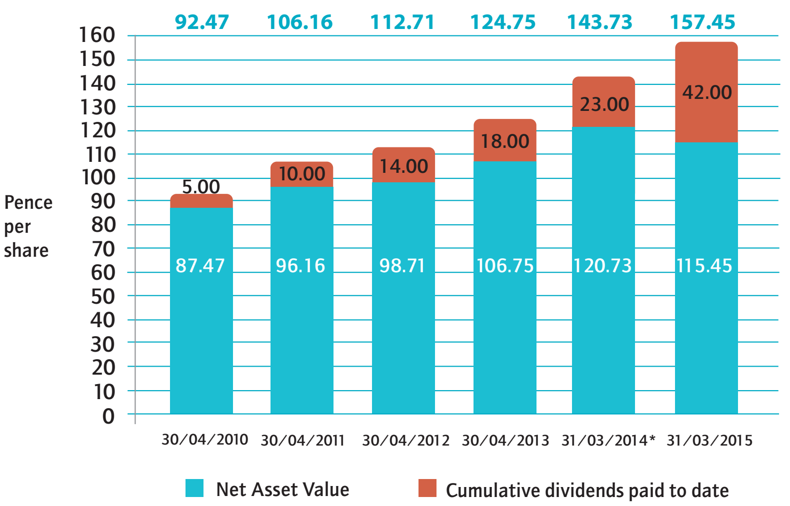
| | NAV basis (p) |
|---|---|
| Closing NAV per share | 115.45 |
| Plus: dividends paid in year | 19.00 |
| **Total for year** | **134.45** |
| Less: opening NAV per share | 120.73 |
| **Return for year per share** | **+13.72** |
| % return for year | **11.4%*** |

| | Share price basis (p) |
|---|---|
| Closing share price | 104.50 |
| Plus: dividends paid in year | 19.00 |
| **Total for year** | **123.50** |
| Less: opening share price | 103.50 |
| **Return for year per share** | **+20.00** |
| % return for year | **19.3%*** |

* The share price return differs from the NAV return, due to the following. The year-end share price is at an approximate discount of 10% to the NAV announced for the Company's previous quarter, not the year-end NAV. Last year, there was a more substantial increase in the final quarter's NAV than occurred this year. This increase was not reflected in the opening share price.

### Cumulative total shareholder returns per share (NAV basis)

The longer term trend of performance on this measure is shown in the chart below:-




Cumulative NAV total shareholder return (pence per share)

* All data for 31 March 2014 relates to an 11 month period throughout this Strategic Report.

For similar performance data to that shown above for each allotment in each fundraising since the inception of the Company, please see the Investor Performance Appendix on pages 67 and 68 of this Annual Report.

### Review of financial results for the year ended 31 March 2015

| For the year/period ended | 31 March 2015 £(m) | 31 March 2014 £(m) |
|---|---|---|
| Capital profit | **3.06** | 3.30 |
| Revenue profit | **1.24** | 1.53 |
| **Total Profit** | **4.30** | **4.83** |

The capital profit of £3.06 million for the year is mainly due to a number of realisations during the year.

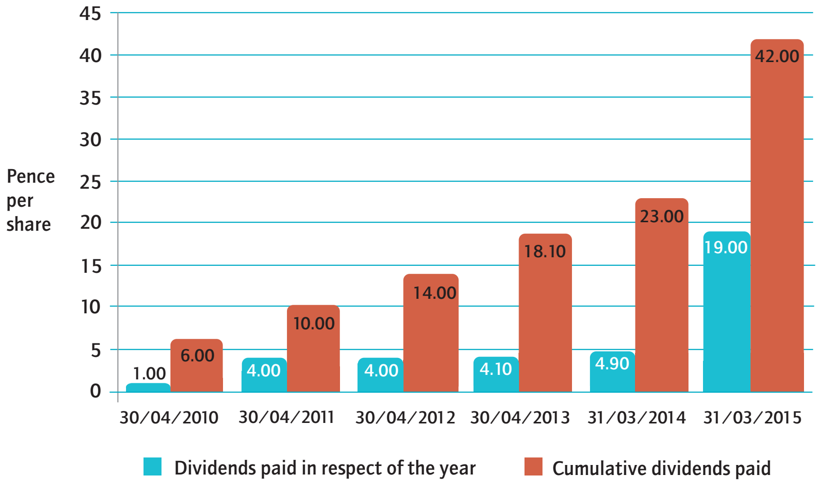
The revenue profit for the year of £1.24 million is a fall from the previous year, mainly due to a fall in dividend income from £0.49 million to £0.29 million.

## 2. The VCT's performance compared with its peer group

The Board places emphasis on benchmarking the Company's performance against a peer group of VCTs.

## 3. Dividend policy

The Board has set a target of paying a consistent and over time an increasing dividend in respect of each financial year, whilst maintaining the net asset value of the Company. In the absence of unforeseen circumstances, the Board will maintain or increase the dividend paid in the previous year (currently 5.00 pence). However, the ability of the Company to pay dividends in the future cannot be guaranteed and will be subject to performance and available cash and reserves.




## 4. Compliance with VCT legislation

In order to comply with VCT tax legislation, the Company must meet a number of tests set by HMRC as detailed on page 19 under VCT Regulation within the Investment Policy. At 31 March 2015, the Company continued to meet these tests.

### 5. Share buyback and discount policy

Subject to the Company having sufficient available funds and distributable reserves, it is the Board's current intention to pursue a buyback policy with the objective of maintaining the discount to the latest published NAV at which the shares trade at approximately 10% or less. It has succeeded in carrying out this objective during the year.

The Board considers that a 10% discount represents a fair balance between assisting investors who wish to sell shares and the majority of investors who wish to continue to invest in a portfolio of investments in unquoted shares. Any future purchases will be subject to the Company having appropriate authorities from shareholders and sufficient funds available for this purpose. Share buybacks will also be subject to the Listing Rules and any applicable law at the relevant time. Shares bought back in the market are always cancelled.

Continuing shareholders benefit from the difference between the NAV and the price at which the shares are bought back and cancelled.

During the year ended 31 March 2015, shareholders holding 0.62 million shares, expressed their desire to sell their investments. The Company instructed its brokers, Panmure Gordon (UK) Limited ("Panmure Gordon"), to purchase these shares at prices representing discounts of 10.0% to the previously announced NAV per share. The Company subsequently purchased these shares at prices between 103.0-108.5 pence per share and cancelled them.

In total, during the period the Company has bought back 2.2% of the issued share capital of the Company at the beginning of the year.

### 6. Costs

The Board monitors costs using the Ongoing Charges Ratio which was 3.04% for the year (2014: 3.05%). In both years, these ratios were before and after performance fees, as there were no such fees in either year. The Ongoing Charges Ratio has been calculated using the Association of Investment Companies' ("AIC") recommended methodology. This figure shows shareholders the annual percentage reduction in shareholder returns as a result of recurring operational expenses, assuming markets remain static and the portfolio is not traded. Although the Ongoing Charges figure is based upon historical information, it provides shareholders with an indication of the likely level of costs that will be incurred in managing the fund in the future.

The Ongoing Charges Ratio replaces the Total Expense Ratio previously reported, although the latter will still form the basis of any expense cap, which may be borne by the Investment Adviser. There was no breach of the expense cap for the year ended 31 March 2015 (11 months ended 31 March 2014: £nil).

The slight fall in the ratio from 3.05% to 3.04% over the year reflects the benefit of spreading the element of costs that are fixed across a larger asset base.

#### Investment Adviser fees and other expenses

In line with the rise in net assets, Investment Adviser fees have increased from £0.67 million to £0.89 million (on a comparable basis). As the cumulative performance hurdle has not been met, no performance fee was payable to the Investment Adviser. Other expenses have also increased slightly from £0.26 million to £0.29 million (actual basis).

Further details of these are contained in the financial statements on pages 47 and 48 of this Annual Report.

## Investment Review

This has been a good year for the portfolio in which the number and value of divestments have been exceptional.

Deal flow has remained healthy, resulting in a high level of quality new investment activity. Seven new investments were completed during the year under review and we expect this level of activity to be maintained in the current year. The Investment Adviser believes the healthy level of deal flow reflects both improved business confidence and the continued perception that the UK banking industry remains unable to meet the funding needs of smaller businesses.

The portfolio as a whole has continued to perform strongly in the year. The valuation of the portfolio has increased by 16.0% during the year on a like-for-like basis, as a result of the good trading performance at several companies, and the profitable disposals referred to in Realisations on pages 10 and 11.

### Investment Adviser's investment outlook

The environment continues to be good for making new investments and for opportunities to provide further finance to existing portfolio companies. This should sustain the level of attractive new investment activity. The market to sell good businesses profitably also continues to be strong. However, having concluded seven significant realisations over the past 12 months, the overall maturity of the investment portfolio has inevitably reduced. In the immediate future we would therefore expect the level of realisations to be at a lower level and the size of the portfolio to grow.

### New investment

During the year, seven new investments and four follow-on investments were completed for a total of £9.30 million. Three of these new transactions were in support of the MBOs of CGI Creative Graphics International, Tharstern and Media Business Insight. New investments were also made in Leap New Co Limited and Aussie Man & Van, in support of a corporate restructuring of the Ward Thomas Group. In addition, two new acquisition vehicles also received investment, being Hollydale Management Limited and Knighton Management Limited.

Four follow-on investments were made in:
ASL Technology in support of its buy and build strategy and to eliminate bank borrowings;
Entanet Holdings to help develop its growth plans;
Racoon International in support of the appointment of a Mobeus operating partner to run the company; and
Gro-Group by way of a small further loan.

Following the partial disposal of ATG Media earlier in the year, the Company retained a loan and 3.3% equity investment of £1.32 million in Turner TopCo, the acquirer.

### Principal new investments in the year

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| cgi | Creative Graphics International | Producer of adhesive decorative graphics for vehicles | June 2014 | 0.73 |
| CGI Creative Graphics International is a leading specialist provider of adhesive decorative graphics to the automotive, recreational vehicle and airline markets. It operates from two centres, in Bedford and in Cape Town, South Africa. The Company's latest audited accounts for the year ended 30 November 2012 show annual sales of £12.64 million and profit before interest, tax and amortisation of goodwill of £2.49 million. | | | | |
| THARSTERN MIS SOLUTIONS FOR PRINT | Tharstern | Software based management information systems | July 2014 | 0.84 |
| Tharstern is a leading UK supplier of software-based management information systems to the print sector based in Colne, Lancashire. The Company's latest audited accounts for the year ended 31 January 2014 show annual sales of £3.87 million and profit before interest, tax and amortisation of goodwill of £0.80 million. | | | | |

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| | Ward Thomas | Specialist logistics, storage and removals business | December 2014 | 1.22 |

Ward Thomas is a brand-led specialist logistics, storage and removals business based in London. The Group comprises three distinct businesses operating under a common management structure with common shareholders. Separate investments were made into Leap New Co Limited, which owns the Anthony Ward Thomas and Bishopsgate businesses (£0.85 million), and into Aussie Man & Van Limited (£0.37 million). The latest audited accounts for Ward Thomas Removals Limited for the year ended 30 September 2013 show annual sales of £12.17 million and profit before interest, tax and amortisation of goodwill of £1.96 million.

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| | Media Business Insight | Events and Publishing | January 2015 | 2.01* |

Media Business Insight Holdings Limited is a publishing and events business focused on the creative production industries, specifically advertising, TV production and film. Based in London, the company comprises four distinct brands. The investment represented an attractive opportunity to invest in a sector leading company underpinned by strong recurring revenues from subscriptions and events. The company's latest audited accounts for the period ended 31 December 2013, show annual sales of £8.24 million and profit before interest, tax and amortisation of goodwill of £1.06 million.

*A further £0.84 million was invested into South West Services Investment Limited ("SWSI") adding to its earlier investment of £0.61 million. This enabled SWSI to acquire Media Business Insight Limited ("MBI"). The Company has also advanced a non-qualifying loan of £0.56 million to MBI. SWSI subsequently changed its name to Media Business Insight Holdings Limited.

The VCT also invested a further £1.77 million into two new acquisition vehicle investments, Hollydale Management and Knighton Management, just before the year-end on 31 March 2015.

### Further investments into existing portfolio companies in the year

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| | ASL Technology | Printer and photocopier services | December 2014 | 0.73 |

ASL Technology is a printer and photocopier services business based in Cambridge and focuses on SME customers, primarily based in East Anglia and the northern Home Counties. The VCT completed a further investment into the company of £0.73 million in December 2014, to provide capital to refinance the bank and support the company's buy and build strategy. ASL had a £13.27 million turnover and generated profit before interest, tax and amortisation of goodwill for the year ended 30 September 2014 of £1.18 million.

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| | Racoon | Hair extension, hair care products and training | January 2015 | 0.12 |

Racoon International is a premier supplier of ethically sourced hair for hair extensions based in Southam, Warwickshire. A small further investment was made with the expectation that this, together with the appointment of a successful sales-orientated Mobeus operating partner to the management team of the business, will add value to a previously unsuccessful investment. Racoon had a £1.94 million turnover and has generated profit before interest, tax and amortisation of goodwill in the year ended 31 March 2014 of £0.09 million.

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| | Entanet | Wholesale provider of internet connectivity solutions | February 2015 | 0.53 |

Entanet is one of the UK's leading independent wholesale voice and data communications providers based in Telford. The VCT made a further loan stock investment in February 2015 as negotiated at the time of the original investment in February 2014. Entanet had a turnover of £29.42 million and generated a profit before interest, tax and amortisation of goodwill of £2.78 million during the year to 31 December 2013.

In addition to the three further investments above, the Company also invested a further £0.03 million in the form of a loan to Gro-Group in November 2014, agreed at the time of the original investment in March 2013.

### Further investment after the year-end

| | Company | Business | Date of investment | Amount of new investment (£m) |
|---|---|---|---|---|
| Jablite INTELLIGENT INSULATION | Jablite | Expanded polystyrene products | April 2015 | 0.84* |

Jablite is the UK's largest domestic manufacturer of Expanded Polystyrene ("EPS") products operating under two divisions producing packaging (Styropack) and construction (Jablite) products. The business was bought out from its Dutch parent and operates from five production sites in the UK. For the year ended 31 December 2013, for Jablite Limited and Styropack (UK) Limited, annual sales were £27.43 million and £15.33 million respectively and profit/(loss) before interest, tax and amortisation of goodwill was £0.66 million and £(0.001) million respectively.

* £0.84 million was invested into the acquisition vehicle Duncary 16 on 2 April 2015. This enabled Duncary 16 to acquire Jablite on 23 April 2015. Duncary 16 has subsequently changed its name to Jablite Holdings Limited.

The VCT also invested a further £6.79 million into eight other new acquisition vehicle investments on 1 April 2015. For further information, please see the Future prospects section of the Chairman's Statement on page 3.

A further investment in CGI Creative Graphics International Limited was made on 3 June 2015, for £0.27 million, agreed at the time of the original investment in June 2014.

## Realisations

The year has been marked by a number of sizeable, profitable realisations which have all generated attractive returns for the Company. The Company completed the partial sale of ATG Media and the full sales of each of MachineWorks, Monsal, and DiGiCo Global in the first half of the year, followed by Focus Pharma, Youngman and EMaC in the second half, for total cash proceeds of £12.45 million compared to cost of £4.58 million. As part of the ATG Media transaction, the Company also received a non-cash consideration of £1.32 million by way of loan stock and equity investments in Turner TopCo Limited, the acquirer. The Company retains a 3.3% shareholding in the business.

With loan repayments of £0.69 million (see over page), and other realisations of £0.01 million, being a repayment for shares from Tharstern, total net proceeds amounted to £14.47 million.

| | Company | Business | Period of investment | Total cash proceeds over the life of the investment/ Multiple over cost |
|---|---|---|---|---|
| MachineWorks | MachineWorks | Software for CAM and Machine tool vendors | April 2006 – April 2014 | £1.55 million<br>4.16 times cost |

MachineWorks' core software products are used by manufacturers of machine tool controllers to simulate real life manufacturing situations. It was de-merged from the Company's original investment in VSI in March 2011 and was sold to Westec Holding Company Limited for £0.93 million. The original investment of £0.37 million has returned £1.55 million in cash over its life.

| | Company | Business | Period of investment | Total cash proceeds over the life of the investment/ Multiple over cost |
|---|---|---|---|---|
| atgmedia | ATG Media | Publisher and online auction platform operator | October 2008 – present | £3.24 million<br>1.87 times cost to date |

A partial sale of ATG Media via a secondary MBO to a mid-market private equity house, ECI Partners, has realised net proceeds of £4.00 million, being cash of £2.68 million, with the balance being a new loan stock investment and a minority 3.3% equity stake, now valued at £1.32 million. The original investment cost in ATG was £1.73 million.

| | Company | Business | Period of investment | Total cash proceeds over the life of the investment/ Multiple over cost |
|---|---|---|---|---|
| MONSAL | Monsal | Supplier of engineering services to the water and waste sectors | December 2007 – June 2014 | £1.74 million<br>1.87 times cost |

The sale of Monsal, a renewable energy consultancy, to the US conglomerate General Electric, realised £1.22 million. The 1.87x return on total original cost of £0.93 million represents a return on an investment originally made in 2007 which required support from further funding rounds in 2009 and 2011.

# Strategic Report

<table>
<tr><th></th><th>Company</th><th>Business</th><th>Period of investment</th><th>Total cash proceeds over the life of the investment/ Multiple over cost</th></tr>
<tr><td></td><td>DiGiCo</td><td>Audio mixing desks</td><td>July 2007 – July 2014</td><td>£5.50 million<br>5.50 times cost</td></tr>
<tr><td colspan="5">The VCT realised its remaining investment through a sale to a new professional audio group backed by Electra Partners. The business has demonstrated strong and consistent growth since investment. Turnover has grown threefold from £8 million to £24 million over the period of the VCT's investment. This final sale for £1.77 million, which followed a partial realisation in December 2011, was through a secondary buyout by Living Bridge (formerly ISIS Equity Partners). The Company's original investment was £1.00 million.</td></tr>
<tr><td></td><td>Focus Pharma</td><td>Generic pharmaceutical products</td><td>October 2007 – October 2014</td><td>£2.50 million<br>3.79 times cost</td></tr>
<tr><td colspan="5">The VCT realised its investment in Focus Pharma through a trade sale to Cinven-backed Amdipharm Mercury Group for £1.34 million. Focus is engaged in the distribution of generic pharmaceuticals both for third parties, and on its own account, where it develops and licenses drugs for its own benefit. The business demonstrated strong growth throughout the investment period with turnover increasing three-fold to just under £40 million per annum. The original investment of £0.66 million has returned cash of £2.50 million to date.</td></tr>
<tr><td></td><td>Youngman</td><td>Access towers and ladders</td><td>October 2006 – October 2014</td><td>£2.52 million<br>2.52 times cost</td></tr>
<tr><td colspan="5">The VCT realised this investment through a sale for £1.72 million to Werner Co (US). Based in Essex, Youngman was established in the 1920s and today produces access equipment including specialist step and loft ladders, access and work platforms, and extension and combination ladders. The investment of £1.00 million has returned £2.52 million in cash over its life.</td></tr>
<tr><td></td><td>EMaC</td><td>Service plans for the motor trade</td><td>October 2011 – December 2014</td><td>£3.38 million<br>3.08 times cost</td></tr>
<tr><td colspan="5">The VCT sold its investment in EMaC to Innovation Group plc for £2.86 million. EMaC is one of the UK's leading providers and administrators of outsourced service plans to car manufacturers and franchised dealers in the motor trade. During the period of this investment, EMaC consistently outperformed expectations and increased turnover by 60% post investment. The original investment of £0.87 million has returned £3.38 million in cash to date.</td></tr>
</table>

### Loan stock repayments

Loan stock repayments totalled £5.30 million for the year, including £4.61 million as part of the proceeds from the companies realised above. Strong cashflow at five other companies contributed to the balance of £0.69 million. These proceeds are summarised below:-

| Company | Business | Amount (£000's) |
|---|---|---|
| Motorclean | Vehicle cleaning and valeting services | 348 |
| Newquay Helicopters | Helicopter services | 168 |
| Tessella | Consultancy services | 71 |
| Tharstern | Software for printing industry | 60 |
| Virgin Wines | Online wine retailer | 46 |
| | | **693** |

## Twelve largest investments in the portfolio by valuation

### ASL Technology Holdings Limited

www.asl-group.co.uk

| | |
|---|---|
| **Cost** | £2,092,000 |
| **Valuation** | £2,395,000 |

Basis of valuation:
Earnings multiple

Equity % held
10.3%

Income receivable in year
£53,582

Business
Printer and photocopier services

Location
Cambridge

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Year ended | 30 September 2014 |
| Turnover | £13,266,000 |
| Operating profit | £1,176,000 |
| Net liabilities | £(3,123,000) |
| Year ended | 30 September 2013 |
| Turnover | £14,484,000 |
| Operating profit | £1,296,000 |
| Net liabilities | £(1,214,000) |

#### Movements during the year

Further investment of £0.73 million made in December 2014.

### Entanet Holdings Limited

www.enta.net

| | |
|---|---|
| **Cost** | £1,444,000 |
| **Valuation** | £2,180,000 |

Basis of valuation:
Earnings multiple

Equity % held
6.4%

Income receivable in year
£104,296

Business
Wholesale communications provider

Location
Telford, Shropshire

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Period ended | 31 December 2013[1] |
| Turnover | £29,415,000 |
| Operating profit | £2,782,000 |
| Net assets | £2,332,000 |
| Year ended | 30 November 2012[1] |
| Turnover | £25,853,000 |
| Operating profit | £2,431,000 |
| Net assets | £5,691,000 |

[1] The financial information quoted above is for Entanet International Limited prior to the MBO which completed in February 2014.

#### Movements during the year

Further investment of £0.53 million made in February 2015.

### Media Business Insight Holdings Limited (formerly South West Services Investment Limited)

www.mb-insight.com

| | |
|---|---|
| **Cost** | £1,447,000 |
| **Valuation** | £1,447,000 |

Basis of valuation:
Recent investment price

Equity % held
11.6%

Income receivable in year
£28,733

Business
Events and publishing

Location
London

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Period ended | 31 December 2013[1] |
| Turnover | £8,238,000 |
| Operating profit | £1,456,000 |
| Net assets | £1,588,000 |

[1] The financial information quoted above is for Media Business Insight Limited prior to the MBO which completed in January 2015. **No relevant comparable data is available for the 2012 year.**

#### Movements during the year

New investment made in January 2015.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk.

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

## Twelve largest investments in the portfolio by valuation

### Virgin Wines Holding Company Limited

www.virginwines.co.uk

| | |
|---|---|
| **Cost** | £1,284,000 |
| **Valuation** | £1,375,000 |

Basis of valuation:
Earnings multiple

Equity % held
6.4%

Income receivable in year
£123,539

Business
Online wine retailer

Location
Norwich

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Period ended | 27 June 2014[1] |
| Turnover | £35,695,000 |
| Operating profit | £1,580,000 |
| Net assets | £6,175,000 |
| Period ended | 28 June 2013[1] |
| Turnover | £34,475,000 |
| Operating profit | £2,010,000 |
| Net assets | £4,952,000 |

[1] The financial information quoted above relates to the operating subsidiary, Virgin Wine Online Limited and includes figures relating to the performance of this company prior to the MBO which completed in November 2013.

#### Movements during the year

A loan repayment of £0.05 million was received during the year.

### Turner TopCo Limited

www.antiquestradegazette.com

| | |
|---|---|
| **Cost** | £1,321,000 |
| **Valuation** | £1,317,000 |

Basis of valuation:
Earnings multiple

Equity % held
3.3%

Income receivable in year
£49,803

Business
Publisher and on-line auction platform operator

Location
London

Original transaction
Secondary buyout

#### Audited financial information

| | |
|---|---|
| Period ended | 30 September 2014 |
| Turnover | £4,126,000 |
| Operating loss | £(539,000) |
| Net liabilities | £(834,000) |
| Year ended | 30 September 2013[1] |
| Turnover | £13,783,000 |
| Operating profit | £3,161,000 |
| Net assets | £5,764,000 |

[1] The financial information quoted above for 2013 is for ATG Media Holdings Limited prior to the secondary MBO which completed in June 2014.

#### Movements during the year

The partial disposal of the Company's investment in ATG Media to Turner TopCo, resulted in the above investment in the acquirer, in June 2014.

### Tessella Holdings Limited

www.tessella.com

| | |
|---|---|
| **Cost** | £757,000 |
| **Valuation** | £1,180,000 |

Basis of valuation:
Earnings multiple

Equity % held
3.9%

Income receivable in year
£82,433

Business
Provider of science powered technology and consulting services

Location
Abingdon, Oxfordshire

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2014 |
| Turnover | £23,146,000 |
| Operating profit | £3,652,000 |
| Net assets | £4,213,000 |
| Year ended | 31 March 2013 |
| Turnover | £14,443,000 |
| Operating profit | £2,064,000 |
| Net assets | £4,306,000 |

#### Movements during the year

Tessella made quarterly loan stock repayments totalling £0.07 million.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk.

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

## Veritek Global Holdings Limited

www.veritekglobal.com

**Cost** £968,000

**Valuation** £1,090,000

Basis of valuation:
Earnings multiple

Equity % held
6.2%

Income receivable in year
£108,224

Business
Maintenance of imaging equipment

Location
Eastbourne, East Sussex

Original transaction
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2014[1] |
| Turnover | £14,443,000 |
| Operating profit | £249,000 |
| Net liabilities | £(804,000) |
| Year ended | 31 March 2013[2] |
| Turnover | £24,684,000 |
| Operating profit | £1,506,000 |
| Net assets | £6,245,000 |

[1] The financial information quoted above is for eight months only, after the acquisition of Veritek Global Limited in July 2013.

[2] The financial information quoted above for 2013 is for Veritek Global Limited prior to the MBO which completed in July 2013.

### Movements during the year

None.

## Fullfield Limited

www.motorclean.net

**Cost** £1,277,000

**Valuation** £931,000

Basis of valuation:
Earnings multiple

Equity % held
8.9%

Income receivable in year
£139,333

Business
Provider of vehicle cleaning and valet services

Location
Laindon, Essex

Original transaction
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2014 |
| Turnover | £38,155,000 |
| Operating profit | £2,554,000 |
| Net assets | £2,567,000 |
| Year ended | 31 March 2013 |
| Turnover | £24,537,000 |
| Operating profit | £1,234,000 |
| Net assets | £2,576,000 |

### Movements during the year

Fullfield made loan repayments totalling £0.35 million during the year.

## EOTH Limited (trading as Rab and Lowe Alpine)

www.equipuk.com

**Cost** £817,000

**Valuation** £916,000

Basis of valuation:
Earnings multiple

Equity % held
1.5%

Income receivable in year
£78,229

Business
Branded outdoor equipment and clothing

Location
Alfreton, Derbyshire

Original transaction
Acquisition capital

### Audited financial information

| | |
|---|---|
| Year ended | 31 January 2014 |
| Turnover | £34,811,000 |
| Operating profit | £3,417,000 |
| Net assets | £9,436,000 |
| Year ended | 31 January 2013 |
| Turnover | £27,266,000 |
| Operating profit | £2,464,000 |
| Net assets | £7,657,000 |

### Movements during the year

None.

# Strategic Report

## Twelve largest investments in the portfolio by valuation

### Leap New Co Limited (trading as Ward Thomas Removals)

www.ward-thomas.co.uk

| | |
|---|---|
| **Cost** | £849,000 |
| **Valuation** | £849,000 |

Basis of valuation:
Recent investment price

Equity % held
4.5%

Income receivable in year
£14,594

Business
Logistics, removal and storage

Location
London

Original transaction
Corporate restructuring

#### Audited financial information

| | |
|---|---|
| Year ended | 30 September 2013 |
| Turnover | £12,169,000 |
| Operating profit | £1,995,000 |
| Net assets | £7,597,000 |
| Year ended | 30 September 2012 |
| Turnover | £10,983,000 |
| Operating profit | £1,559,000 |
| Net assets | £6,807,000 |

#### Movements during the year

New investment made in December 2014.

### Blaze Signs Holdings Limited

www.blaze-signs.com

| | |
|---|---|
| **Cost** | £437,000 |
| **Valuation** | £816,000 |

Basis of valuation:
Earnings multiple

Equity % held
13.5%

Income receivable in year
£nil

Business
Manufacturer and installation of signs

Location
Broadstairs, Kent

Original transaction
MBO from private ownership

#### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2014 |
| Turnover | £31,284,000 |
| Operating profit | £5,127,000 |
| Net assets | £5,614,000 |
| Year ended | 31 March 2013 |
| Turnover | £22,741,000 |
| Operating profit | £2,301,000 |
| Net assets | £3,323,000 |

#### Movements during the year

None.

### Tharstern Group Limited

www.tharstern.com

| | |
|---|---|
| **Cost** | £790,000 |
| **Valuation** | £790,000 |

Basis of valuation:
Recent investment price

Equity % held
8.8%

Income receivable in year
£48,668

Business
Software-based Management Information Systems to the print sector

Location
Colne, Lancashire

Original transaction
Management buyout

#### Audited financial information

| | |
|---|---|
| Year ended | 31 January 2014 |
| Turnover | £3,871,000 |
| Operating profit | £799,000 |
| Net assets | £885,000 |
| Year ended | 31 January 2013 |
| Turnover | £3,358,000 |
| Operating profit | £690,000 |
| Net assets | £770,000 |

#### Movements during the year

New investment made in July 2014. A partial loan repayment of £0.06 million was made in March 2015.

The remaining 17 investments in the portfolio have a current cost of £9.94 million and were valued at 31 March 2015 at £6.50 million.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk.

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

# Strategic Report

## Investment Portfolio Summary

*as at 31 March 2015*

| | Date of first investment/ Sector | Total book cost at 31 March 2015 £ | Valuation at 31 March 2014 £ | Additions at cost £ | Disposals at valuation £ | Valuation at 31 March 2015 £ | Change in valuation for year £ | % of net assets by value |
|---|---|---|---|---|---|---|---|---|
| **Qualifying investments** | | | | | | | | |
| **Unquoted investments** | | | | | | | | |
| **ASL Technology Holdings Limited** Printer and photocopier services | December 2010 Support services | 2,092,009 | 1,356,148 | 731,879 | – | 2,394,873 | 306,846 | 5.7% |
| **Entanet Holdings Limited (formerly Ackling Management Limited)** Wholesale voice and data communications provider | February 2014 Fixed Line Tele-communications | 1,444,090 | 912,057 | 532,033 | – | 2,180,042 | 735,952 | 5.2% |
| **Media Business Insight Holdings Limited (formerly South West Services Investment Limited)**[1] A publishing and events business focused on the creative production industries | January 2015 Media | 1,447,188 | 606,000 | 841,188 | – | 1,447,188 | – | 3.4% |
| **Virgin Wines Holding Company Limited** Online wine retailer | November 2013 General retailers | 1,284,333 | 1,330,202 | – | 45,869 | 1,374,970 | 90,637 | 3.3% |
| **Turner TopCo Limited (trading as ATG Media)** Publisher and online auction platform operator | October 2008 Media | 1,320,963 | 3,732,310 | 1,320,963 | 3,732,310 | 1,317,247 | (3,716) | 3.1% |
| **Tessella Holdings Limited** Provider of science powered technology and consulting services | July 2012 Support services | 757,143 | 1,149,818 | – | 71,506 | 1,179,963 | 101,651 | 2.8% |
| **Veritek Global Holdings Limited** Maintenance of imaging equipment | July 2013 Support services | 967,780 | 967,780 | – | – | 1,089,947 | 122,167 | 2.6% |
| **Fullfield Limited (trading as Motorclean Limited)** Vehicle cleaning and valet services | July 2011 Support services | 1,276,604 | 1,879,839 | – | 348,165 | 930,735 | (600,939) | 2.2% |
| **EOTH Limited (trading as Equip Outdoor Technologies Limited)** Branded outdoor equipment and clothing | October 2011 General retailers | 817,185 | 922,695 | – | – | 915,779 | (6,916) | 2.2% |
| **Hollydale Management Limited** Company seeking to acquire businesses in the food sector | March 2015 Support Services | 885,000 | – | 885,000 | – | 885,000 | – | 2.1% |
| **Knighton Management Limited** Company seeking to acquire businesses in the engineering sector | March 2015 Support Services | 885,000 | – | 885,000 | – | 885,000 | – | 2.1% |
| **Leap New Co Limited (trading as Ward Thomas Removals and Bishopsgate)** A specialist logistics, storage and removals business | December 2014 Support services | 848,500 | – | 848,500 | – | 848,500 | – | 2.0% |
| **Blaze Signs Holdings Limited** Manufacturing and installation of signs | April 2006 Support services | 437,030 | 2,052,255 | – | – | 816,333 | (1,235,922) | 1.9% |
| **Tharstern Group Limited** MIS & Commercial print software solutions | July 2014 Software and Computer Services | 789,815 | – | 838,000 | 48,185 | 789,815 | – | 1.9% |
| **CGI Creative Graphics International Limited** Vinyl graphics to global automotive, recreation vehicle and aerospace markets | June 2014 General Industrials | 731,032 | – | 731,032 | – | 731,032 | – | 1.7% |
| **Gro-Group Holdings Limited** Baby sleep products | March 2013 General retailers | 1,123,088 | 1,027,009 | 26,986 | – | 695,892 | (358,103) | 1.7% |

[1] - A further £0.84 million was invested into South West Services Investment Limited ("SWSI"), adding to an earlier investment of £0.61 million. This enabled SWSI to acquire Media Business Insight Limited ("MBI"). The Company is not a shareholder in MBI but it has also advanced a non-qualifying loan of £0.56 million to MBI, shown on page 18. SWSI subsequently changed its name to Media Business Insight Holdings Limited.

# Strategic Report

## Investment Portfolio Summary

*as at 31 March 2015*

| | Date of first investment/ Sector | Total book cost at 31 March 2015 £ | Valuation at 31 March 2014 £ | Additions at cost £ | Disposals at valuation £ | Valuation at 31 March 2015 £ | Change in valuation for year £ | % of net assets by value |
|---|---|---|---|---|---|---|---|---|
| **Manufacturing Services Investment Limited**<br>Company seeking to acquire businesses in the manufacturing sector | February 2014<br>Support services | 608,000 | 608,000 | – | – | 608,000 | – | 1.4% |
| **Bourn Bioscience Limited**<br>In-vitro fertilisation clinic | January 2014<br>Healthcare Equipment & Services | 757,101 | 757,101 | – | – | 607,329 | (149,772) | 1.4% |
| **RDL Corporation Limited**<br>Recruitment consultants for the pharmaceutical , business intelligence and IT industries | October 2010<br>Support services | 1,000,000 | 588,078 | – | – | 607,325 | 19,247 | 1.4% |
| **The Plastic Surgeon Holdings Limited**<br>Snagging and finishing of domestic and commercial properties | April 2008<br>Support services | 392,264 | 376,825 | – | – | 511,002 | 134,177 | 1.2% |
| **Aussie Man & Van Limited**<br>A specialist logistics, storage and removals business | December 2014<br>Support services | 373,341 | – | 373,341 | – | 373,341 | – | 0.9% |
| **Newquay Helicopters (2013) Limited**<br>Helicopter service operators | June 2006<br>Support services | 226,000 | 226,000 | – | – | 226,000 | – | 0.5% |
| **Vectair Holdings Limited**<br>Design and sale of washroom products | January 2006<br>Support services | 60,293 | 312,238 | – | – | 190,542 | (121,696) | 0.5% |
| **Racoon International Holdings Limited**<br>Supplier of hair extensions, hair care products and training | December 2006<br>Personal goods | 998,140 | 1,000 | 119,613 | – | 119,613 | (1,000) | 0.3% |
| **Lightworks Software Limited**<br>Software for CAD vendors | April 2006<br>Software and Computer Services | 25,727 | 67,873 | – | – | 60,279 | (7,594) | 0.1% |
| **PXP Holdings Limited (trading as Avebury Projects)**<br>Architectural design | December 2006<br>Construction | 1,220,579 | 57,143 | – | – | – | (57,143) | 0.0% |
| **Legion Group plc (in liquidation)**<br>Provision of manned guarding, mobile patrolling, and alarm response services | August 2005<br>Support Services | 150,000 | – | – | – | – | – | 0.0% |
| **EMaC Holdings Limited (formerly Ingleby (1879) Limited)**<br>Service plans for the motor trade | October 2008<br>Support services | – | 1,489,972 | – | 1,489,972 | – | – | 0.0% |
| **Machineworks Software Limited**<br>Software for CAM and machine tool vendors | April 2006<br>Software and Computer Services | – | 902,986 | – | 902,986 | – | – | 0.0% |
| **Focus Pharma Holdings Limited**<br>Licensor and distributor of generic pharmaceuticals | October 2007<br>Support services | – | 740,093 | – | 740,093 | – | – | 0.0% |
| **Youngman Group Limited**<br>Manufacturer of ladders and access towers | October 2005<br>Support services | – | 699,966 | – | 699,966 | – | – | 0.0% |
| **Monsal Holdings Limited**<br>Supplier of engineering services to the water and waste sectors | December 2007<br>Engineering | – | 51,265 | – | 51,265 | – | – | 0.0% |
| **Total unquoted investments** | | **22,918,205** | **22,814,653** | **8,133,535** | **8,130,317** | **21,785,747** | **(1,032,124)** | **51.6%** |

| | Date of first investment/ Sector | Total book cost at 31 March 2015 £ | Valuation at 31 March 2014 £ | Additions at cost £ | Disposals at valuation £ | Valuation at 31 March 2015 £ | Change in valuation for year £ | % of net assets by value |
|---|---|---|---|---|---|---|---|---|
| **AIM quoted investments** | | | | | | | | |
| **Iafyds plc (formerly Vphase plc)** Development of energy saving devices for domestic use | March 2001 Electronic and electrical equipment | 254,586 | – | – | – | – | – | 0.0% |
| **Total AIM quoted investments** | | **254,586** | **–** | **–** | **–** | **–** | **–** | **0.0%** |
| **Total qualifying investments** | | **23,172,791** | **22,814,653** | **8,133,535** | **8,130,317** | **21,785,747** | **(1,032,124)** | **51.6%[2]** |
| **Non-qualifying investments** | | | | | | | | |
| **Media Business Insight Limited[1]** | as above | 561,884 | – | 561,884 | – | 561,884 | – | 1.3% |
| **Century 3370 plc (in liquidation)** Promotional goods and services agency | March 2004 Support Services | 250,000 | – | – | – | – | – | 0.0% |
| **Legion Group plc (in liquidation)** | as above | 106 | – | – | – | – | – | 0.0% |
| **DiGiCo Global Limited** Design and manufacture of audio mixing desks | December 2011 Technology, hardware and equipment | – | 1,549,846 | – | 1,549,846 | – | – | 0.0% |
| **Newquay Helicopters (2013) Limited** | as above | – | 167,647 | – | 167,647 | – | – | 0.0% |
| **ATG Media Holdings Limited** | as above | – | 779 | – | 779 | – | – | 0.0% |
| **Total non-qualifying investments** | | **811,990** | **1,718,272** | **561,884** | **1,718,272** | **561,884** | **–** | **1.3%** |
| **Total investments per note 8, page 51** | | **23,984,781** | **24,532,925** | **8,695,419** | **9,848,589** | **22,347,631** | **(1,032,124)** | **52.9%** |
| **Cash** | | **8,503,568** | **3,158,216** | **–** | **–** | **8,503,568** | | **20.2%** |
| **Current Investments[3]** | | **11,235,859** | **3,727,300** | **–** | **–** | **11,235,859** | | **26.7%** |
| **Total investments including cash and current investments** | | **43,724,208** | **31,418,441** | **8,695,419** | **9,848,589** | **42,087,058** | **(1,032,124)** | **99.8%** |
| Debtors | | 180,065 | 2,596,972 | | | 180,065 | | 0.5% |
| Creditors | | (164,306) | (137,034) | | | (164,306) | | (0.3)% |
| **Totals** | | **43,739,967** | | **8,695,419** | **9,848,589** | | | |
| **Net assets at the year-end** | | | **33,878,379** | | | **42,102,817** | | **100.0%** |

[1] - A further £0.84 million was invested into South West Services Investment Limited ("SWSI"), adding to an earlier investment of £0.61 million as shown on page 16. This enabled SWSI to acquire Media Business Insight Limited ("MBI"). The Company is not a shareholder in MBI but it has also advanced a non-qualifying loan of £0.56 million to MBI. SWSI subsequently changed its name to Media Business Insight Holdings Limited.

[2] - As at 31 March 2015, the Company held more than 70% of its total investments in qualifying holdings, and therefore complied with the VCT Qualifying Investment test. For the purposes of the VCT qualifying test, the Company is permitted to disregard disposals of investments for six months from the date of disposal. It also has up to three years, before new funds raised need to be included in the qualifying investment test.

[3] - Disclosed within current assets as current investments in the Balance Sheet.

# Strategic Report

## Key policies

The Board has put in place the following policies to be applied to meet the Company's overall objective and to cover specific areas of the Company's business.

### Investment Policy

The Company's policy is to invest primarily in a diverse portfolio of UK unquoted companies. Investments are structured as part loan and part equity in order to receive regular income and to generate capital gains from trade sales and flotations of investee companies.

Investments are made selectively across a number of sectors, primarily in Management Buyout transactions i.e. to support incumbent management teams in acquiring the business they manage but do not yet own. Investments are primarily made in companies that are established and profitable.

The Company's cash and liquid resources may be invested to maximise income returns, subject to the overriding criterion that the risk of loss of capital be minimised.

### UK Companies

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment and £16 million immediately following the investment to be classed as a VCT qualifying holding.

### VCT regulation

The investment policy is designed to ensure that the VCT continues to qualify and is approved as a VCT by HMRC.

Amongst other conditions, the VCT may not invest more than 15 per cent. of its investments in a single company or group of companies and must have at least 70 per cent. by value of its investments throughout the period in shares or securities comprised VCT qualifying holdings, of which a minimum overall of 30% by value (70% for funds raised from 6 April 2011) must be in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules). The VCT can invest less than 30% by value (70% for funds raised from 6 April 2011) of an investment in a specific company in ordinary shares. It must, however, have at least 10% by value of its total investments in each VCT qualifying company in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules).

### Asset Mix

The Investment Adviser aims to hold approximately 80 per cent. of net assets by value in the Company's qualifying investments. The balance is held in readily realisable interest bearing investments and deposits and in some non-qualifying holdings in the same investee companies in which qualifying investments have been made.

### Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses across different industry sectors. To reduce the risk of high exposure to equities, each qualifying investment is structured using a significant proportion of loan stock.

### Co-investment

The Company aims to invest in larger, more mature unquoted companies through investing alongside the three other VCTs advised by Mobeus with a similar investment policy. This enables the Company to participate in combined investments advised on by Mobeus of up to £5 million.

### Borrowing

The Company's articles permit borrowings of amounts up to 10% of the adjusted capital and reserves (as defined therein). The Company has never borrowed and the Board has no current plans to undertake any borrowing.

### Cash available for investment and liquidity

The Company's cash and liquid resources are held in a range of instruments of varying maturities including liquid, low risk Money Market Funds and bank deposits, subject to the overriding criterion that the risk of loss of capital be minimised.

The Company has participated in the Mobeus VCTs' annual linked fundraising since 2014 in order to maintain a sufficient level of funds that can be deployed in meeting the day-to-day expenses of the Company and dividend distributions and purchases of the Company's own shares. This enables money raised prior to 6 April 2012 to be allocated for future MBO investment.

### Diversity

The Directors have considered diversity in relation to the composition of the Board and have concluded that its membership is diverse in relation to gender and breadth of experience. The Board comprises three men and one woman. The Company does not have any senior managers or employees. The Board has made a commitment to consider diversity in making future appointments.

### Further policies

In addition to the Investment Policy and Diversity Policy above and the policies on payment of dividends and share buybacks which are discussed earlier in this Strategic Report, the Company has adopted a number of further policies relating to:

- Human rights
- Anti-bribery
- Environmental and social responsibility
- Global greenhouse gas emissions
- Whistleblowing

These are set out in the Directors' Report on page 24 of this Annual Report.

## Principal risks

The Directors acknowledge the Board's responsibilities for the Company's internal control systems and have instigated systems and procedures for identifying, evaluating and managing the significant risks faced by the Company. This includes a key risk management review which takes place at each quarterly Board meeting. Further details of these are contained in the Corporate Governance section of the Directors' Report on pages 29 to 32. The principal risks identified by the Board are set out below:

| Risk | Possible consequence | How the Board manages risk |
|---|---|---|
| **Economic** | Events such as an economic recession and movements in interest rates could affect trading conditions for smaller companies and consequently the value of the Company's qualifying investments. | • *The Board monitors the portfolio as a whole to ensure that (1) the Company invests in a diversified portfolio of companies and (2) developments in the macro-economic environment such as movements in interest rates are monitored.* |
| **Investment and strategic** | Investment in unquoted small companies can involve a higher degree of risk than investment in larger, and/or fully listed companies. 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 Board regularly reviews the Company's investment strategy.*<br>• *Investee companies are carefully selected by the Investment Adviser for recommendation to the Board. The investment portfolio is reviewed by the Board on a regular basis.* |
| **Loss of approval as a Venture Capital Trust** | The Company must comply with section 274 of the Income Tax Act 2007 ("ITA") 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. | • *The Board receives regular reports from Robertson Hare LLP ("RH") who have been retained to undertake an independent VCT status monitoring role.*<br>• *The Company's VCT qualifying status is reviewed by RH and the Investment Adviser on a regular basis.* |
| **VCT Regulatory changes** | The Company is required to comply with frequent changes to the VCT specific regulations relating to European State Aid regulations as enacted by the UK Government. Non-compliance would result in a loss of VCT status. | • *The Board receives advice from RH in respect of these requirements and conducts its affairs in order to comply with these requirements.* |
| **Regulatory** | The Company is required to comply with the Companies Act, the listing rules of the UK Listing Authority and United Kingdom Accounting Standards. Changes to and breaches of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. | • *Regulatory and legislative developments are kept under review by the Board.* |
| **Financial and operating** | Failure of the systems at any of the third party service providers that the Company has contracted with could lead to inaccurate reporting or monitoring. Inadequate controls could lead to the misappropriation or insecurity of assets. | • *The Board carries out an annual review of the internal controls in place and reviews the risks facing the Company at each quarterly Board meeting.*<br>• *It reviews the performance of the service providers annually.* |

# Strategic Report

| Risk | Possible consequence | How the Board manages risk |
|---|---|---|
| **Market** | Movements in the valuations of the VCT's investments will, inter alia, be connected to movements in UK Stock Market indices. | • *The Board receives quarterly valuation reports from the Investment Adviser.*<br>• *The Investment Adviser alerts the Board about any adverse movements.* |
| **Asset liquidity** | The Company's investments may be difficult to realise. | • *The Board receives reports from the Investment Adviser and reviews the portfolio at each quarterly Board meeting. It carefully monitors investments where a particular risk has been identified.* |
| **Market liquidity** | Shareholders may find it difficult to sell their shares at a price which is close to the net asset value. | • *The Board has a share buyback policy which seeks to mitigate market liquidity risk. This policy is reviewed at each quarterly Board meeting.* |
| **Counterparty** | A counterparty may fail to discharge an obligation or commitment that it has entered into with the Company. | • *The Board regularly reviews and agrees policies for managing these risks. Further details can be found under 'credit risk' in Note 18 to the accounts on pages 56 to 63.* |

**Future prospects**

For a discussion of the Company's future prospects, please see the Chairman's Statement on pages 2 and 3.

**Nigel Melville**
*Chairman*
15 June 2015

# Board of Directors

## Nigel Melville

**Status:**
**Independent, Non-Executive Director and Chairman**
**Age: 70**

*Date of appointment:* 10 May 2000 (Elected Chairman: 5 September 2006).

*Experience:* Nigel was Chairman of Emtelle Holdings Limited, the UK's leading supplier of fibre-optic ducting systems, until 4 August 2008. He is a director of a number of other public and private companies. Between 1972 and 1995, he was an investment banker, latterly as a director of Barings responsible for international corporate finance. In 1995 he established Melville Partners to provide strategic consultancy to a range of international companies.

*Last re-elected to the Board:*
September 2014, stands for re-election annually.

*Committee memberships:*
Nomination Committee (Chairman), Remuneration Committee, Audit Committee and Investment Committee.

*Number of regular Board and Committee meetings attended 2014/15:* 8/8

*Remuneration 2014/15:* £24,000

*Relevant relationships with the Investment Adviser or other service providers:*
None.

*Shareholding in the Company:*
52,302 Ordinary Shares (including holdings of connected persons) as at the date of this Report.

*Shareholding in investee companies:*
None.

## Adam Kingdon

**Status:**
**Independent, Non-Executive Director**
**Age: 57**

*Appointment to the Board:* 29 September 2006.

*Experience:* Adam has over twenty years' experience as a turnaround specialist and of restoring companies to profitability. He has turned around more than ten loss-making engineering and technology companies in the UK, France, Germany, Holland and Belgium. In 2005 he founded i2O Water to develop innovative technology for the international water sector. In February 2015 he left i2O Water to found Utonomy, a supplier of intelligent utility networks.

*Last re-elected to the Board:*
September 2014.

*Committee memberships:*
Audit Committee (Chairman), Nomination Committee, Remuneration Committee and Investment Committee.

*Number of regular Board and Committee meetings attended 2014/15:* 8/8

*Remuneration 2014/15:* £21,000

*Relevant relationships with the Investment Adviser or other service providers:*
None.

*Shareholding in the Company:*
5,709 Ordinary Shares as at the date of this Report.

*Shareholding in investee companies:*
None.

## Sally Duckworth

**Status:**
**Independent, Non-Executive Director**
**Age: 46**

*Appointment to the Board:* 1 January 2007.

*Experience:* Sally has worked in the financial services sector since 1990 and in the private equity industry since 2000. An active angel investor, she sits on the board of several early stage companies. She is a qualified accountant, former investment banker and venture capitalist. From 2000 to 2004 she worked for Quester Capital Management Limited as part of the investment team for their VCTs. She is currently CEO of Youatwork Limited, a specialist technology provider of employee benefits and auto employer software.

*Last re-elected to the Board:*
September 2013.

*Committee memberships:*
Investment Committee (Chairman), Audit Committee, Nomination Committee, Remuneration Committee

*Number of regular Board and Committee meetings attended 2014/15:* 8/8

*Remuneration 2014/15:* £21,000

*Relevant relationships with the Investment Adviser or other service providers:*
None.

*Shareholding in the Company:*
None as at the date of this Report.

*Shareholding in investee companies:*
None.

## Kenneth Vere Nicoll

**Status:**
**Independent, Non-Executive Director**
**Age: 72**

*Appointment to the Board:* 10 May 2000.

*Experience:* Ken has over 40 years of corporate finance experience. He was a non-executive director of Unicorn AIM VCT II plc until March 2010, when it merged with Unicorn AIM VCT plc.

*Last re-elected to the Board:*
September 2014, stands for re-election annually.

*Committee memberships:*
Remuneration Committee (Chairman), Audit Committee, Nomination Committee and Investment Committee.

*Number of regular Board and Committee meetings attended 2014/15:* 8/8

*Remuneration 2014/15:* £21,000

*Relevant relationships with the Investment Adviser or other service providers:*
None.

*Shareholding in the Company:*
54,705 Ordinary Shares (including holdings of connected persons) as at the date of this Report.

*Shareholding in investee companies:*
None.

# Directors' Report

## The Directors present the fifteenth Annual Report and Accounts of the Company, for the year ended 31 March 2015.

The Board believes that the Annual Report and Accounts 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.

The Company is registered in England and Wales as a Public Limited Company (registration number 03946235).

The Company has satisfied the requirements for full approval as a Venture Capital Trust under section 274 of the Income Tax Act 2007 (the "ITA"). It is the Directors' intention to continue to manage the Company's affairs in such a manner as to comply with section 274 of the ITA.

To enable capital profits to be distributed by way of dividends, the Company revoked its status as an investment company as defined in section 833 of the Companies Act 2006 ("the Companies Act") on 7 July 2005. The Company does not intend to re-apply for such status.

### Share capital

The former 'O' Fund ordinary shares of 1p each in the capital of the Company were first admitted to the Official List of the UK Listing Authority and to trading on 11 July 2000.

The current class of ordinary shares of 1p were first admitted to the Official List of the UK Listing Authority and to trading on 21 December 2005. Following the merger of the 'O' and 'C' Ordinary shares, the listing of the 'C' shares was amended on the Official List to Ordinary shares of 1p in the capital of the Company ("ordinary shares") on 10 September 2010 and the 'O' share listing was cancelled.

### Issue of shares

During the year under review, the Company issued a total of 9,027,285 (2014: 4,738,760) shares. Of this total, 6,592,315 shares were allotted under the VCT's Offer for subscription launched on 10 December 2014. The balance of 2,434,970 shares was allotted under the previous offer launched on 28 November 2013.

### Buyback of shares

At the Annual General Meeting held on 11 September 2014, shareholders granted the Company authority, pursuant to section 701 of the Companies Act, to make market purchases of up to 5,466,648 of its own shares representing 14.99% of the issued share capital of the Company. This authority has been in place throughout the year under review. A resolution to renew this authority will be proposed to shareholders at the forthcoming AGM to be held on 10 September 2015.

During the year under review, the Company bought back 620,793 (2014: 747,336) for cancellation at a cost of £652,628 (2014: £740,347) (including expenses). These shares represented 2.2% of the issued share capital of the Company at the beginning of the year.

All shares bought back by the Company were subsequently cancelled.

### Issued share capital

The issued share capital of the Company as at 31 March 2015 was £364,686 (2014: £280,621) and the number of shares in issue at this date was 36,468,632 (2014: 28,062,140).

### Dividends

An interim dividend of 14.00 pence per share was paid on 20 October 2014 to shareholders on the register on 19 September 2014. The Directors declared a second interim dividend of 5.00 pence (2014: 4.90 pence) per share comprising 2.25 pence from capital and 2.75 pence from income in respect of the year ended 31 March 2015. The second interim dividend was paid on 20 March 2015 to shareholders on the Register on 20 February 2015. This dividend increased cumulative dividends paid since inception of the Company to 42.00 pence per share.

### Directors

Copies of the Directors' appointment letters will be available for inspection at the place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting.

Details of each Director's interest in the Company's shares are set out on page 26 of the Directors' Annual Remuneration Report.

None of the Directors held interests in investee companies throughout the year.

### Powers of the directors

The powers of the Directors have been granted by company law, the Company's articles and resolutions passed by the Company's members in general meeting. Resolutions are proposed at each annual general meeting of the Company to authorise the Directors to allot shares, disapply the pre-emption rights of members and buyback the Company's own shares on behalf of the Company. These authorities are currently in place and resolutions to renew them will be proposed at the next Annual General Meeting of the Company to be held on 10 September 2015.

### Disclosure of information to the Auditor

So far as each of the Directors in office at 31 March 2015 is aware, there is no relevant audit information of which the auditor is unaware. They have individually taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Directors' and officers' liability insurance

The Company maintains a Directors' and Officers' liability insurance policy. The policy does not provide cover for fraudulent or dishonest actions by the Directors.

### Post balance sheet events

For a full list of the post balance sheet events that have occured since 31 March 2015, please see note 21 to the accounts on page 63.

### Going concern

The Board has assessed the Company's operation as a going concern. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Directors have satisfied themselves that the Company continues to maintain a significant cash position. The majority of companies in the portfolio continue to trade profitably and the portfolio taken as a whole remains resilient and well diversified. The major cash outflows of the Company (namely investments, buybacks and dividends) are within the Company's control. The Board's assessment of liquidity risk and details of the Company's policies for managing its capital and financial risks are shown in note 18 on pages 56 to 63 of this Annual Report. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Furthermore, the Directors have considered whether there are any material uncertainties that the Company may face during the twelve months to 31 March 2016, that may impact on its ability to operate as a going concern. No such material uncertainties have been identified by the Board.

The Board has identified a number of principal risks which are faced by the Company in the normal course of its business and these are set out in the Strategic Report on pages 20 and 21.

## Social and environmental policies

### Human rights policy

The Board seeks to conduct the Company's affairs responsibly and gives full consideration to the human rights implications of its decisions, particularly with regard to investment decisions.

### Anti-bribery policy

The VCT has adopted a zero tolerance approach to bribery. The following is a summary of its policy:

- It is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships where it operates.
- Directors and service providers must not promise, offer, give, request, agree to receive or accept a financial or other advantage in return for favourable treatment, to influence a business outcome or to gain any other business advantage on behalf of themselves or of the Company or encourage others to do so.
- The Company has communicated its anti-bribery policy to each of its service providers. It expects and requires each of its service providers to have policies in place which reflect the key principles of this policy and procedures, and which demonstrate that they have adopted procedures of an equivalent standard to those instituted by the Company.

### Environmental and social responsibility

The Board seeks to conduct the Company's affairs responsibly and considers relevant social and environmental matters when appropriate, particularly with regard to investment decisions. The Company uses mixed sources paper from well-managed forests and recycled wood and fibre as endorsed by the Forest Stewardship Council for the printing of its Annual and Half-Yearly Reports.

### Global greenhouse gas emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, (including those within the Company's underlying investment portfolio).

### Whistleblowing

The Board has considered the recommendation made in the UK Corporate Governance Code with regard to a policy on whistleblowing and has reviewed the arrangements at the service providers under which staff may, in confidence, raise concerns. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters.

## Additional disclosures

The following additional disclosures are made in accordance with Part 6 of Schedule 7 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended 2013).

### Articles of association

The Company may amend its articles of association ("the Articles") by special resolution in accordance with section 21 of the Companies Act 2006.

### Substantial interests

As at the date of this report the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

### Voting rights of shareholders

Each shareholder has one vote on a show of hands, and on a poll one vote per share held, at a general meeting of the Company. No member shall be entitled to vote or exercise any rights at a general meeting unless all their shares have been paid up in full. Any instrument of proxy must be deposited at the place specified by the Directors no later than 48 hours before the time for holding the meeting.

### Restrictions on voting rights

There are no restrictions on voting rights and no agreements between holders of securities that may prevent or restrict the transfer of securities or voting rights.

## Annual General Meeting

The Notice of the Annual General Meeting of the Company to be held at 12 noon on 10 September 2015 at 33 St James's Square, London SW1Y 4JS is set out on pages 69 to 71 of this Annual Report. Proxy Forms for the AGM are enclosed with shareholders' copies of this Annual Report. Proxy votes may also be submitted electronically via the Capita Shareholder Portal www.capitashareportal.com and those shareholders who have elected to receive information from the Company by email will have received a link to this site. Please see page 64 for further information.

Resolutions 1-8 are being proposed as ordinary resolutions requiring more than 50% of the votes cast at the meeting to be in favour and resolutions 9 and 10 will be proposed as special resolutions requiring the approval of at least 75% of the votes cast at the meeting. The following is an explanation of resolutions 8, 9, and 10, which along with resolutions 1 – 7 will be proposed at the meeting.

**Authorities for the Directors to allot shares (Resolution 8) and disapply the pre-emption rights (Resolution 9) under sections 551 and 570(1) of the Companies Act 2006 ("the Act").**

These two resolutions grant the Directors the authority to allot shares for cash to a limited and defined extent otherwise than pro rata to existing shareholders.

Resolution 8 will authorise the Directors to allot Shares up to an aggregate nominal value of £136,469 representing approximately 37.42 per cent. of the existing issued share capital of the Company as at the date of the notice convening the Annual General Meeting.

Under section 561(1) of the Act, if the Directors wish to allot new shares or sell treasury shares for cash they must first offer such shares to existing shareholders in proportion to their current holdings. It is proposed by resolution 9 to sanction the disapplication of such pre-emption rights in respect of the allotment of equity securities:

(i) with an aggregate nominal value of up to £100,000 in connection with offer(s) for subscription;

(ii) otherwise than pursuant to (i) above, with an aggregate nominal value of up to 10 per cent. of the issued share capital of the Company from time to time;

in each case where the proceeds may be used in whole or part to purchase the Company's shares.

Both of these authorities, unless previously renewed, varied, or revoked will expire on the date falling fifteen months after the passing of the resolution or, if earlier, on the conclusion of the annual general meeting of the Company to be held in 2016. However, the Directors may allot securities after the expiry dates specified above in pursuance of offers or agreements made prior to the expiration of these authorities.

It is the Directors' intention that new ordinary shares may be issued pursuant to future fundraisings offers under these authorities although no decision has been taken at this juncture. The Directors have no further immediate intention of exercising the above powers.

Both resolutions renew previous authorities approved by shareholders on 11 September 2014.

**Authority to purchase the Company's own shares (Resolution 10)**

This resolution authorises the Company to purchase its own shares pursuant to section 701 of the Act. The authority is limited to the purchase of an aggregate of 5,466,648 shares representing approximately 14.99 per cent. of the issued share capital of the Company as at the date of this Annual Report or, if lower, such number of Shares (rounded down to the nearest whole share) as shall equal 14.99 per cent. of the issued Share capital of the Company at the date the resolution is passed. The maximum price that may be paid for a Share will be the higher of (i) an amount that is not more than 5 per cent. above the average of the middle market quotations of the shares as derived from the daily Official List of the UK Listing Authority for the five business days preceding the date such shares are contracted to be purchased and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation. The minimum price that may be paid for a share is 1 penny, being the nominal value thereof.

Market liquidity in VCTs is normally very restricted. The passing of this resolution will enable the Company to purchase its own Shares, thereby providing a mechanism by which the Company may enhance the liquidity of its Shares and seek to manage the level and volatility of the discount to NAV at which its shares may trade.

It is the Directors' intention to cancel any Shares bought back under this authority. Shareholders should note that the Directors do not intend to exercise this authority unless they believe that to do so would result in an increase in net assets per share, which would be in the interests of shareholders generally. This resolution will expire on the date falling fifteen months after the passing of this resolution or, if earlier, on the conclusion of the Company's annual general meeting to be held in 2016 except that the Company may purchase its own Shares after this date in pursuance of a contract or contracts made prior to the expiration of this authority.

The financial risk management and future developments are referred to in the Strategic Report on pages 20 and 21.

**By order of the Board**

**Mobeus Equity Partners LLP**
*Company Secretary*
15 June 2015

# Directors' Remuneration Report

Dear Shareholder

I am pleased to introduce the Director's Annual Remuneration Report for the year ended 31 March 2015.

This report sets out the Company's forward looking Directors' Remuneration Policy and the Annual Remuneration Report which describes how this policy has been applied during the year.

The Committee has reviewed the fees paid in the year ended 31 March 2015 and decided to raise each Director's fees by £1,000 per annum. As part of this review, it considered information on the fees paid to directors of a peer group of VCTs of a similar size operating in its sector. The fees paid to Directors were last increased on 1 May 2011 and this modest increase reflects the increase in size of the Company (net assets have risen from £24.86 million then to £42.10 million now). In addition, the Board faces increased regulatory requirements since that date. This increase was effective from 1st April 2015.

The Directors' Remuneration Policy was subject to shareholder approval last year and will be reconsidered by shareholders in 2017.

I would welcome any comments you may have.

Kenneth Vere Nicoll
Remuneration Committee Chairman
15 June 2015

## Introduction

This report has been prepared by the Directors in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Companies Act 2006 and the Listing Rules of the UK Listing Authority ("the Listing Rules").

The Company's independent Auditor is required to give its opinion on the specified information provided on Directors' emoluments on page 28 of this Annual Report, and this is explained further in the Auditor's Report to shareholders on pages 37 to 39.

The resolution to approve the Directors' Remuneration Policy as set out in the Annual Report for the period ended 31 March 2014 was approved by shareholders at the annual general meeting of the Company held on 11 September 2014. The Remuneration Policy will next be put to shareholders at the annual general meeting of the Company to be held in 2017.

The resolution to approve the Directors' Annual Remuneration Report as set out in the Annual Report for the period ended 31 March 2014 was approved by shareholders at the annual general meeting held on 11 September 2014. An ordinary resolution will be proposed at the forthcoming Annual General Meeting of the Company to be held on 10 September 2015 for approval of the Directors' Annual Remuneration Report as set out below.

## Directors' Remuneration Policy

The Directors fees are reviewed annually. When considering the level of Directors' fees, the Remuneration Committee takes account of the workload required to be performed by the non-executive Directors, and is aware of the remuneration levels elsewhere in the Venture Capital Trust industry and other relevant information. It considers the levels and make-up of remuneration which are sufficient to attract, retain and motivate directors of the quality required to run the Company successfully and reflect the time commitment and responsibilities of the roles. The Committee may choose to take independent advice where and when it considers it appropriate.

Since all the Directors are non-executive, the Company is not required to comply with the provisions of the Listing Rules, the UK Corporate Governance Code and the AIC Code of Corporate Governance in respect of directors' remuneration, except in so far as they relate specifically to non-executive directors.

### Performance related remuneration

Whilst it is a key element of this policy to recruit Directors of the calibre required to lead the Company in achieving its short and long-term objectives, no component of the fees paid is directly related to performance.

### Recruitment remuneration

Remuneration of any new Director who may subsequently be appointed to the Board will be in line with the Remuneration Policy set out in this Report and the levels of remuneration stated therein.

### Additional benefits

The Company does not have any schemes in place to pay any of the Directors' bonuses or benefits in addition to the Directors' fees. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office. None of the Directors receive pension benefits from the Company and the Company has not granted any Director any options over the share capital of the Company.

### Shareholders' views on remuneration

The Board welcomes any views of shareholders, through discussion at general meetings of the Company or otherwise. It takes views expressed by shareholders into account, where appropriate, when formulating its remuneration policy.

### Directors' interests in the Company's shares

The Directors who held office throughout the year under review and their interests as at 31 March 2015 were:

| Director | Holdings at 31 March 2014 | Shares issued during the year | Holdings at 31 March 2015 | Holdings at the date of this report |
|---|---|---|---|---|
| Nigel Melville | 43,720 | 8,582 | 52,302 | 52,302 |
| Adam Kingdon | 5,709 | – | 5,709 | 5,709 |
| Sally Duckworth | – | – | – | – |
| Kenneth Vere Nicoll | 54,705 | – | 54,705 | 54,705 |

# Directors' Remuneration Report

### Directors' terms of appointment

All of the Directors are non-executive. The Articles of the Company provide that Directors may be appointed either by an ordinary resolution of the Company or by the Board provided that a person appointed by the Board shall be subject to election at the first annual general meeting following their appointment. The Articles of the Company state that, subject to the provisions of the Companies Act, one-third of the Directors retire from office by rotation at each annual general meeting, or if their number is not a multiple of three, the number nearest to but not greater than one-third. The Director retiring at each annual general meeting shall be the Director who has been longest in office since their last re-election. However, two Directors have served on the Board for more than nine years and have therefore agreed to offer themselves for re-election annually.

All Directors receive a formal letter of appointment setting out the terms of their appointment and their specific duties and responsibilities and the fees pertaining to their appointment. Each of the agreements may be terminated by either party giving not less than three months notice in writing. Appointment letters for new Directors will in future contain an assessment of the anticipated time commitment of the appointment and Directors will be asked to undertake that they will have sufficient time to meet what is expected of them and to disclose their other significant time commitments to the Board before appointment.

A Director's appointment may be terminated on three months' notice being given by the Company. This policy applied throughout the year ended 31 March 2015 and will continue to apply to the current year ending 31 March 2016.

The table below displays the maximum payment receivable per annum by each Director for the current year and going forward, together with a summary of the Company's strategy and how this is supported by the current remuneration policy.

**Company Objective**

To provide investors with an attractive return, by maximising the stream of dividend distributions from the income and capital gains generated by a diverse and carefully selected portfolio of investments.

**Remuneration Policy**

**To ensure that the levels of remuneration paid are sufficient to attract, retain and motivate directors of the quality required to manage the Company in order to achieve the Company's Objective**

| Director | Role | Remuneration | Maximum payment per annum* | Performance conditions |
|---|---|---|---|---|
| **Nigel Melville** | **Chairman** | **Director's fee** | £19,000 | **None** |
| | | Supplement payable to Company Chairman | £6,000 | |
| | | **Total** | **£25,000** | |
| **Adam Kingdon** | **Chairman, Audit Committee** | **Director's fee** | £19,000 | **None** |
| | | Supplement payable to Chairman of the Audit Committee | £3,000 | |
| | | **Total** | **£22,000** | |
| **Sally Duckworth** | **Chairman, Investment Committee** | **Director's fee** | £19,000 | **None** |
| | | Supplement payable to Chairman of the Investment Committee | £3,000 | |
| | | **Total** | **£22,000** | |
| **Kenneth Vere Nicoll** | **Chairman, Remuneration Committee** | **Director's fee** | £19,000 | **None** |
| | | Supplement payable to Chairman of the Remuneration Committee | £3,000 | |
| | | **Total** | **£22,000** | |
| | | **Total fees payable** | **£91,000** | |

* No maximum amount payable to the Directors is contained in the Company's Articles of Association. The Articles state that remuneration levels are determined by the Remuneration Committee.

## Annual Remuneration Report

The Company's Directors' Remuneration Policy as set out on pages 26 and 27 of this Annual Report will continue to be implemented throughout the year ending 31 March 2016.

## Remuneration committee

The remuneration of individual Directors is determined by the Remuneration Committee within the framework set by the Board. The Committee comprises the full Board and is chaired by Kenneth Vere Nicoll. The Committee meets at least once a year and is responsible for setting the remuneration policy for the Board and reviewing its ongoing appropriateness and relevance. It carries out an annual review of the remuneration of the Directors and makes recommendations to the Board on remuneration policy and the level of Directors' fees. The Committee may, at its discretion, recommend to the Board that individual Directors should be awarded additional payments in respect of extra-curricular work carried out on behalf of the Company. It is responsible for the appointment of remuneration consultants, if this should be considered necessary, including establishing the selection criteria and terms of reference for such an appointment. The Committee met once during the period under review with full attendance from all its members.

## Directors' emoluments *(audited information)*

The total emoluments in respect of qualifying services of each person who served as a Director during the year were as set out in the table below.

| | **Year ended 31 March 2015 £** | **11 months ended 31 March 2014 £** |
|---|---|---|
| Nigel Melville | 24,000 | 22,000 |
| Adam Kingdon | 21,000 | 19,250 |
| Sally Duckworth | 21,000 | 19,250 |
| Kenneth Vere Nicoll | 21,000 | 19,250 |
| **Total** | **87,000** | **79,750** |

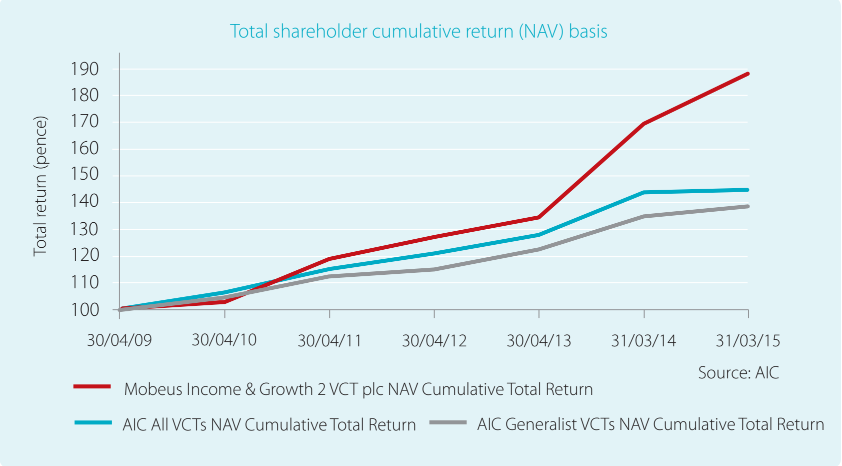
Aggregate fees paid in respect of qualifying services amounted to £87,000 (2014: £79,750).

### Relative importance of spend on Directors' fees

| | **Year ended 31 March 2015 £** | **11 months ended 31 March 2014 £** |
|---|---|---|
| Total directors' fees | 87,000 | 79,750 |
| Dividends paid in respect of the year | 6,010,031 | 1,292,825 |

## Total shareholder return

The graph opposite charts the total cumulative shareholder return of the Company (assuming all dividends are not re-invested) over the past six years compared with that of an index of all VCTs and an index of generalist VCTs which are members of the AIC based on figures provided by Morningstar. The Board considers these indices to be the most appropriate indices against which to measure the Company's performance over the medium to long term. The total returns have each been re-based to 100 pence at 1 May 2009.




An explanation of the recent performance of the Company is given in the Chairman's Statement and the Strategic Report.

By order of the Board

**Mobeus Equity Partners LLP**

*Company Secretary*

15 June 2015

# Corporate Governance Statement

The Board of Mobeus Income & Growth 2 VCT plc has considered the principles and recommendations of the AIC Code of Corporate Governance 2012 (AIC Code) by reference to the AIC Corporate Governance Guide for investment companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principals set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principals and recommendations of the Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

## Statement of compliance

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

Firstly, the provisions of the code relating to the role of the chief executive and executive directors' remuneration are not relevant to the Company. As an externally advised investment company and since all the Directors of the Company are non-executive, the Company does not employ a chief executive nor any executive directors. Secondly, given the systems and procedures of the Investment Adviser, the provision of VCT monitoring services by Robertson Hare LLP (formerly by PriceWaterhouseCoopers LLP), and the size of the Company's operations, the Board has full confidence that an internal audit function is not necessary.

The table below provides an explanation of how the Company has complied with the AIC Code during the year. Explanations are also provided where the Company has not complied with the AIC Code.

| AIC Code | Principle | Compliance and/or departure from the AIC Code |
|---|---|---|
| 1 | The Chairman should be independent. | The Board have assessed the independence of the Chairman and concluded that Mr Melville has continued to meet the independence criteria as identified in the UK Code, as re-stated in Principle 1 of the AIC Code. The remaining Directors monitor the continuing independence of the Chairman, and inform the Chairman of their discussions. The significant directorships and time commitments of the Chairman and the other Directors are considered by the Board and are disclosed on page 22.<br><br>The Board has not appointed a Senior Independent Director, as it does not believe that such an appointment is necessary when the Board is comprised solely of non-executive directors. As suggested in the AIC Code (Principle 1), this role can, and in this instance is, fulfilled by the Chairman of the Audit Committee. |
| 2 | A majority of the Board should be independent of the manager. | Both the Chairman, Mr Melville and Mr Vere Nicoll have served as Directors for 15 years and are therefore not regarded as independent of the Investment Adviser in accordance with the AIC Code. However, the Board believes that the length of service is an asset to the Company and considers both Directors offer independent, professional judgement. Both Adam Kingdon and Sally Duckworth have served as Directors for 8 years.<br><br>The Directors have declared any existing or potential conflicts of interest and these are reviewed and authorised by the Board as appropriate in accordance with the procedures under the Articles of Association and applicable rules and regulations. It is the policy of the Directors not to participate in decisions concerning investee companies in which they hold an interest. No Directors currently hold, or have previously held, a direct interest in any of the Company's investee companies. |
| 3 | Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance. | As is common practice among Venture Capital Trusts, the Directors are not appointed for specific terms. The Board has agreed that both Mr Melville and Mr Vere Nicoll will retire annually and, in accordance with the Company's Articles of Association, a further Director, if appropriate, will seek re-election, in accordance with the AIC Code. A Director's appointment may be terminated on three months' notice being given by the Company. For further information please see the Directors' Remuneration Report on pages 26 to 28. |

| AIC Code | Principle | Compliance and/or departure from the AIC Code |
|---|---|---|
| 4 | The Board should have a policy on tenure, which is disclosed in the annual report. | The Board has considered a policy on tenure and agreed that for a Company of this size and structure, it is not appropriate to insist on a director's period of service being limited to a set number of years or to set an age limit for the retirement of directors. The AIC has specifically stated that investment company boards are perhaps more likely than most to benefit from having at least one Director with considerably longer than nine years' experience. As part of its annual performance review, the Board has come to the conclusion that the length of service, experience and ability of its Directors enhances its performance. It does not believe that the length of service of any of the Directors has a negative effect on their independence and is satisfied with the balance of experience on the current Board. In particular, the Board considers that the Chairman's and Mr Vere Nicoll's service of fifteen years each as a Director of Company is an asset to the Board. |
| 5 | There should be full disclosure of information about the board. | Full biographical details on each Director are included on page 22, in the fundraising document and on the Company's website. |
| 6 | The board should aim to have a balance of skills, experience, length of service and knowledge of the Company. | The Board believe that there is a diversity of skills, gender, experience and approach, amongst the Board members. Both the Board and Nomination and Remuneration Committees give careful consideration to issues of board balance and diversity when considering board composition and appointments. Details of each Director's experience and background is set out on page 22. |
| 7 | The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. | The effectiveness of the Board and the Chairman is reviewed regularly as part of the internal control process led by the Audit Committee. The Board has carried out an annual performance evaluation review during the year ended 31 March 2015. As part of its review, the Directors considered the performance of each of the Directors and of the Board as a whole in relation to specific areas of their activity. The performance of the Chairman is assessed separately. The Board as a whole discussed the outcome of the performance evaluation and, led by the Chairman, considers and agrees a plan of action to rectify any shortfalls where appropriate. The Board concluded that the performance of the Board, the Chairman and the Directors remained effective. |
| 8 | Directors' remuneration should reflect their duties, responsibilities and the value of their time spent. | The Remuneration Committee considers the remuneration of the Directors annually. Having reviewed Directors' remuneration, the Committee has recommended a relatively small increase in remuneration levels for the current year, for each Director. Please see the Directors' Remuneration Report set out on pages 26 to 28 of this Annual Report for details. |
| 9 | The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report. | The Nomination Committee is responsible for proposing candidates for appointment to the Board and for overseeing the recruitment process. The independent directors take the lead in Committee discussions. |
| 10 | Directors should be offered relevant training and induction. | New directors are provided with an induction pack and an induction session is arranged in conjunction with the Board, the Investment Adviser and the Administrator. A formal training programme has not been required during the year under review as all the Directors are experienced directors of listed companies. All of the Directors participate in continuing professional development and regularly attend conferences and workshops relevant to the VCT industry. |
| 11 | The chairman (and the board) should be brought into the process of structuring a new launch at an early stage. | Principle 11 applies to the launch of new investment companies. It is therefore not applicable to the Company, although the Board participated fully in the production of the fundraising document published in December 2014. |

# Corporate Governance Statement

| AIC Code | Principle | Compliance and/or departure from the AIC Code |
|---|---|---|
| 12 | Boards and managers should operate in a supportive, co-operative and open environment. | The Board meets at least quarterly, which meetings are also attended by the Investment Adviser. The Board and the Investment Adviser aim to work together in a supportive, co-operative and open manner. The Investment Adviser takes the initiative on most aspects of the Company's operations, under the guidance and formal approval of the Board and the Board has agreed policies with the Investment Adviser covering key operational issues. All investment, divestment and valuation decisions are made by the Board having considered formal recommendations from the Investment Adviser. |
| 13 | The primary focus at regular board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues. | The Board considers a report from the Adviser at each of its quarterly meetings which provides information on the performance of each of the investments in the portfolio, corporate actions at each investment that maybe occurring and other matters relating to the portfolio. The Board monitors the investments made by the Investment Adviser to ensure that they are in line with the Company's Investment Policy as well as the principal risks associated with pursuing the investment strategy. The Board also considers peer group performance, asset allocation and wider industry and economic issues in reviewing investment performance and strategy. In addition, the Board monitors financial and other internal controls, including maintenance of VCT status and the level of share price discount or premium. The Board has no current plans to undertake any gearing of the Company. |
| 14 | Boards should give sufficient attention to overall strategy. | The Board monitors performance against its agreed strategy on an ongoing basis and reviews its overall strategy at its annual strategy meeting. |
| 15 | The Board should regularly review both the performance of, and contractual arrangements with, the adviser (or executives of a self-managed company) | The Board reviews annually, and at other times as and when necessary, the Investment Management Agreement and the performance of the Investment Adviser. |
| 16 | The Board should agree policies with the manager covering key operational issues. | The Board has agreed that the Investment Adviser takes the initiative on most aspects of the Company's operations, under the guidance and formal approval of the Board. The Board has agreed policies with the Investment Adviser covering key operational issues. |
| 17 | The Board should monitor the level of the share price discount or premium (if any) and, if desirable take action to reduce it. | At each Board meeting a review of the share price discount or premium is performed. The Board approves every buyback as it is undertaken. |
| 18 | The Board should monitor and evaluate other service providers. | The Board reviews annually, and at other times as and when necessary, the performance of the other service providers including the auditor, VCT status adviser, solicitors, bankers and registrars. Robertson Hare LLP ("RH") was appointed as VCT status adviser to the Company during the year. |
| 19 | The Board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders. | The Board has a duty to promote the success of the Company and to ensure that its obligations to shareholders are met. The Company communicates with shareholders and solicits their views where it is appropriate to do so.<br><br>The Board approves the circulation of the Half-Yearly and Annual Report and Accounts to shareholders. Shareholders are welcome at the Annual General Meeting which provides a forum for shareholders to ask questions of the Directors and the Investment Adviser and to discuss issues affecting the Company with them. In addition, the Investment Adviser publishes a twice-yearly VCT shareholder newsletter which contains information on the portfolio and recent investment and corporate activity. The Investment Adviser also organises an annual shareholder event which the Board also attends, so as to answer any questions, and listen to any views that shareholders may have. The Company has established its own website which forms a dedicated section of the Investment Adviser's website. |

| AIC Code | Principle | Compliance and/or departure from the AIC Code |
|---|---|---|
| 20 | The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman. | The Board updates shareholders upon the impact of regulatory changes upon the Company's operations. It is consulted regarding promotional material which may be issued by the Investment Adviser. |
| 21 | The Board should ensure that shareholders are provided with sufficient information for them to understand the risk: reward balance to which they are exposed by holding the shares. | The Board believes that the Annual Report and Accounts have been prepared in order to ensure that the information presented to shareholders is fair, balanced and understandable and complies with the recommendations of the AIC Code. The principal risks faced by the Board are documented in the Strategic Report as part of the Annual Report, and in the Half-Yearly Report. |

Additional information relevant to the corporate governance of the Company is set out below:

### Re-election of Directors

Three directors will be subject to re-election by shareholders at the forthcoming Annual General Meeting on 10 September 2015;

- In accordance with the AIC Code, Nigel Melville and Kenneth Vere Nicoll, who have both served on the Board for 15 years, have agreed to retire annually from the Board and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. Following a review of their performance, the Board agreed that Nigel Melville and Kenneth Vere Nicoll continue to make a substantial contributions to the Board and that their length of service is an asset to the Company. The remaining directors have no hesitation in recommending their re-election to shareholders.

- In accordance with the Company's Articles of Association, Sally Duckworth offers herself for re-election by rotation at the forthcoming Annual General Meeting. Following a review of her performance, the Board noted that Sally Duckworth has considerable experience both of making investments in the types of companies in which the VCT invests and of being a VCT director. She has shown herself to be a committed and independently-minded Director who continues to make a substantial contribution to the Board as a Director and as Chairman of the Investment Committee. The remaining directors have no hesitation in recommending her re-election to shareholders.

The Board considers that each director continues to offer valuable skills and experience and recommends shareholders vote in favour of the re-electing each Director.

### Board

The Board (chaired by Nigel Melville) has agreed a schedule of matters specifically reserved for decision by the Board. These include compliance with the requirements of the Companies Act 2006 and the Income Tax Act 2007, the UK Listing Authority and the London Stock Exchange; strategy and management of the Company; changes relating to the Company's capital structure or its status as a plc; financial reporting and controls; board and committee appointments as recommended by the Nomination Committee and terms of reference of committees; material contracts of the Company and contracts of the Company not in the ordinary course of business.

### Board committees

The Board has established four Committees with responsibilities for specific areas of its activity. Each of the Committees have written terms of reference, which detail their authority and duties. Shareholders may obtain copies of these by making a written request to the Company Secretary or via the Company's website: www.mig2vct.co.uk.

The Board has satisfied itself that each of its Committees has sufficient resources to undertake its duties.

The table below sets out the Directors' attendance at quarterly Board meetings, and Committee meetings held during the year ended 31 March 2015. In addition to the quarterly Board meetings, the Board met on other occasions to consider specific issues as they arose.

| Directors | Board Meetings (4) | | Audit Committee Meetings (2) | | Remuneration Committee Meeting (1) | | Nomination Committee Meeting (1) | |
|---|---|---|---|---|---|---|---|---|
| | Eligible | Attended | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| Nigel Melville | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |
| Adam Kingdon | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |
| Sally Duckworth | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |
| Kenneth Vere Nicoll | 4 | 4 | 2 | 2 | 1 | 1 | 1 | 1 |

# Corporate Governance Statement

## Investment Committee

The Investment Committee (chaired by Sally Duckworth) comprises all four Directors: Sally Duckworth, Nigel Melville, Adam Kingdon and Kenneth Vere Nicoll.

The Committee's key responsibilities are to consider and approve investment recommendations from the Investment Adviser. The Committee meets frequently on an ad hoc basis by telephone as necessary to discuss and, if appropriate, to approve investment recommendations from the Investment Adviser. It is therefore not included in the above meetings schedule.

During the year investment matters were discussed extensively at Board meetings and the Committee advises the Board on the development and implementation of the Investment Policy and leads the process for the ongoing monitoring of investee companies and the Company's investment therein. Investment guidelines have been issued to the Investment Adviser and the Committee ensures that these guidelines are adhered to. New investments and divestments are approved by written resolution of the Committee following discussion between Committee members and are subsequently ratified by the Board. Investment matters are discussed at Board meetings. During the year, the Committee formally approved all investment and divestment decisions and met informally on numerous occasions.

The Committee considers and agrees, on the advice of the Investment Adviser, for recommendation to the Board, all unquoted investment valuations. Investments are valued in accordance with IPEVC Valuation Guidelines under which investments would be valued at fair value as defined in those guidelines. Any AIM or other quoted investment would be valued at the closing bid price of its shares as at the relevant reporting date, in accordance with generally accepted accounting practice.

## Nomination Committee

The Nomination Committee (chaired by Nigel Melville) comprises all four Directors: Nigel Melville, Adam Kingdon, Sally Duckworth, and Kenneth Vere Nicoll.

The Committee meets at least once a year and is responsible for making recommendations to the Board concerning new appointments to the Board and Board Committees. It carries out a periodic review of the composition of the Board and its Committees and considers actual or potential conflicts of interest which may arise as a result of the outside business activities of Board members. It is intended that job descriptions will be prepared for new vacancies as they arise. No appointments have been made during the year under review.

## Remuneration Committee

The Remuneration Committee (chaired by Kenneth Vere Nicoll) comprises all four Directors: Kenneth Vere Nicoll, Nigel Melville, Adam Kingdon, and Sally Duckworth.

The Committee meets at least once a year and is responsible for setting the Remuneration Policy and considering the levels and composition of remuneration payable to the Directors.

A full description of the work of the Committee is included within the Directors' Remuneration Report on pages 26 to 28.

## Audit Committee

The Audit Committee (chaired by Adam Kingdon) comprises all four Directors: Adam Kingdon, Nigel Melville, Sally Duckworth, and Kenneth Vere Nicoll.

The Audit Committee meets to:

- Review the half-year and annual financial statements before submission to the Board, including meeting with the independent auditor;
- Make recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- Monitor the effectiveness of the Company's internal control systems; and
- Review the scope and results of the audit including ensuring its cost effectiveness.

The Audit Committee held two formal meetings during the year with full attendance from each of the Directors on each occasion. The Committee met informally on other occasions.

During the year the Committee's principal activities were as summarised below:

*Valuation of investments*

Investments are mainly in unquoted companies, valuations of which are agreed quarterly by the Investment Committee for recommendation to the Board. The Audit Committee monitors this process, and ensures that adequate controls operate over the preparation of these valuations throughout the year. Twice a year, it also reviews the valuation of the investments in the portfolio, prior to their inclusion in the Company's Half-Year and Annual Reports. The Committee focuses on ensuring that both the bases of the valuations and any assumptions used are reasonable and in accordance with International Private Equity and Venture Capital guidelines. Discussions were held with the external auditor, to review its own findings from the year-end audit, and from its review at the Half-Year, before recommendations are made to the Board upon the inclusion of the valuations in both reports to shareholders.

*Financial statements*

The Committee has also carefully reviewed the Half-Yearly and Annual Reports to shareholders for the year under review, prior to submission to the Board for approval. Besides the subject of valuations referred to above, the Committee also considered whether the accounting policy in respect of revenue recognition had been satisfactorily applied, and whether all expenditure in the year had been included.

*Impairments*

The Committee also reviewed the appropriateness and completeness of impairments against investments. If an investment has been impaired such that there is no realistic expectation that there will be a full return from the investment, the loss is treated as a permanent impairment and is recognised as a realised loss in the financial statements.

*Internal control and key risks*

The Committee has monitored the system of internal of controls throughout the year under review as described in more detail in this Statement. It received a report on any exceptions at its Annual and Half-Yearly results meetings. In a wider context, the Board has continued to identify the key risks faced by the

Company and established appropriate controls. This is again explained further in the section on internal controls on this page. The Committee also monitors these controls and reviews any incidences of non-compliance.

*Compliance with the VCT tests*
The Company engaged the services of Robertson Hare LLP (in succession to PwC) to advise on its compliance with the legislative requirements relating to VCTs. A report on the Company's compliance with the tests is produced by Robertson Hare LLP on a bi-annual basis and reviewed by the Committee for recommendation to the Board.

*Going concern*
The Board and the Committee monitored the Company's liquidity to satisfy themselves that the Company has an adequate level of resources for the foreseeable future. Cash flow projections, and the assumptions on, amongst others, the levels of investment purchases and disposals, dividends and share buybacks used in preparing them, were reviewed.

*Counterparty risk*
The Committee has given careful consideration to the credit worthy status of the banks with whom the Company's cash resources have been placed. The Committee took into account factors such as maturity, interest rate and credit rating across a number of financial institutions. The Board has a policy of spreading risk by placing funds across a number of financial institutions.

### Relationship with the external auditor

The Committee is responsible for overseeing the relationship with the external auditor, assessing the effectiveness of the external audit process and making recommendations on the appointment and removal of the external auditor. It makes recommendations to the Board on the level of audit fees and the terms of engagement for the auditor. The external auditor is invited to attend Audit Committee meetings, where appropriate, and also meets with the Committee and its Chairman without representatives of the Investment Adviser being present.

### Non-audit services

The Committee regularly reviews and monitors the potential impact such services could have upon the external auditor's independence and objectivity. It reviews the nature and extent of non-audit services supplied by the auditor to ensure that independence is maintained. These services are tax compliance and assurance related services, such as a review of the Half-Yearly Report. The Audit Committee has concluded that it was in the interests of the Company to purchase these services from the external auditor, given its knowledge of the Company and hence to benefit from greater efficiency. Furthermore, the Committee believed that audit independence has been maintained. It was satisfied that the nature of the service being provided did not result in a self-review threat, as the fees involved are relatively small compared to those for the audit, the work is undertaken by separate teams and does not involve undertaking any management role in preparing the information reported in the accounts.

## Internal control

The Board acknowledges that it is responsible for the Company's system of internal control. Internal control systems are designed to manage the particular needs of the Company and the risks to which it is exposed and can by their nature only provide reasonable and not absolute assurance against material misstatement or loss.

Internal controls aim to ensure the maintenance of proper accounting records, the reliability of the financial information used for publication and upon which business decisions are made, and that the assets of the Company are safeguarded. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance.

The Board has put in place ongoing procedures for identifying, evaluating and managing the significant risks faced by the Company. As part of this process an annual review of the control systems is carried out. The review covers a consideration of the key business, operational, compliance and financial risks facing the Company and includes a review of the risks in relation to the financial reporting process. The Board reviews a schedule of key risks at each quarterly Board meeting and reviews the management accounts, and annual or half-yearly reports arising therefrom, prepared by the administrator.

The Board has delegated, contractually to third parties, the management of the investment portfolio, the day-to-day accounting, company secretarial and administration requirements and the registration services.

The Company has engaged the services of Robertson Hare LLP in succession to PwC to advise on its compliance with the tax legislation requirements relating to VCT's. As such, they advise on compliance with the requirements of the Venture Capital Trust tax legislation. Mobeus, on behalf of the VCT, also seeks professional advice in relation to the application of the venture capital trust legislation to any company in which the Company is proposing to invest. The Directors monitor the continuing tests for the Company's VCT status at Board meetings.

This system of internal control and the procedure for the review of control systems referred to above has been in place and operational throughout the year under review and up to the date of this Report. The assessment of the effectiveness of internal controls in managing risk was conducted on the basis of reports from the relevant service providers. The last review took place on 13 May 2015. The Board has identified no significant problems with the Company's internal control mechanisms.

## Investment management and service providers

Mobeus acts as Investment Adviser and also provides administrative and company secretarial services to the Company.

The Board reviews annually, and at other times as and when necessary, the Investment Management Agreement and the performance of the Investment Adviser, and the other service providers including the auditor, VCT status adviser, solicitors, bankers and registrars.

Particular emphasis is placed on reviewing the Investment Adviser, and this forms part of the Board's overall internal control procedures. The Board considers the arrangements for the provision of investment advisory and other services to the Company on an ongoing basis and a formal review is conducted annually.

As part of this annual review, the Board considers the quality and continuity of the investment management team, the investment process and the results achieved to date. The Board concluded that the Investment Adviser has returned a good performance and that the Company's investment portfolio had performed well. The Board places significant emphasis on the Company's performance against benchmarks and is satisfied that the VCT's performance compares satisfactorily to the benchmark used on a consistent basis. The Board further considered the Investment Adviser's commitment to the promotion of the Company and was satisfied that this was prioritised highly by the Investment Adviser, evidenced by the Linked VCT fundraisings which had taken place annually since 2010. The strategy of investing primarily in MBOs of established companies was successful. The Board believes that the Investment Adviser had continued to exercise independent judgment while producing consistent valuations which reflected fair value.

The Directors believe that the continued appointment of Mobeus as Investment Adviser to the Company on the terms currently agreed is in the interests of shareholders and this was formally approved by the Board on 13 May 2015.

The principal terms of the Company's Investment Management Agreement with the Investment Adviser dated 10 September 2010 and the incentive fee arrangements dated 20 September 2005 are set out in note 3 to the Accounts on page 47 of this Annual Report. The Board seeks to ensure that the terms of these Agreements represent an appropriate balance between cost and incentivisation of the Investment Adviser.

### AIFM Registration

The Board has appointed the Company as its own Alternative Investment Fund Manager ("AIFM") in compliance with the European Commission's Alternative Investment Fund Manager's Directive, with effect from 22 July 2014. The Company is registered as a small AIFM, and is therefore exempt from the principal requirements of the Directive. Mobeus will continue to provide investment advisory and administrative services to the Company under the current agreement subject to one change. This is that company secretarial staff are now directly responsible to the Board, under its instruction, for accessing and dealing with the documents of title to the Company's investments. These new arrangements will enable the Company to discharge its safekeeping responsibilities for these documents.

### Additional disclosures in the Directors' Report

Disclosures required by certain publicly-traded companies as set out in Part 6 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended 2013) are contained in the Directors' Report.

By order of the Board

**Mobeus Equity Partners LLP**

*Company Secretary*

15 June 2015

# Statement of Directors' Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with United Kingdom accounting standards, 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;
- prepare a Strategic Report, a Directors' Report and Directors' Annual 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.

## 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' responsibilities pursuant to Disclosure and Transparency Rule 4 of the UK Listing Authority

The Directors confirm to the best of their knowledge that:

(a) The financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice give a true and fair view of the assets, liabilities, financial position and the profit of the Company.

(b) The Annual 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.

The Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Neither the Company nor the Directors accept any liability to any person in relation to the Annual Report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with section 90A and schedule 10A of the Financial Services and Markets Act 2000.

The names and functions of the Directors are stated on page 22.

For and on behalf of the Board

**Nigel Melville**

*Chairman*

15 June 2015

# Independent Auditor's Report to the Members of Mobeus Income & Growth 2 VCT plc

## Our opinion on the financial statements

In our opinion the Mobeus Income & Growth 2 VCT plc financial statements for the year ended 31 March 2015, which have been prepared by the directors in accordance with applicable law and United Kingdom Accounting Standards:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of it's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Standards; 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;
- Reconciliation of Movements in Shareholders' Funds;
- Balance Sheet;
- Cash Flow Statement; and
- related notes

## Respective responsibilities of directors and auditor

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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's (FRC) website at www.frc.org.uk/auditscopeukprivate

## Our approach

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 Adviser 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. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response:

| Risk area | Audit response |
|---|---|
| **Valuation of investments:**<br>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 Adviser, who is remunerated based on the net asset value of the Company. | The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The majority of investments are valued on the earnings multiple basis. For a sample of such investments held, our audit procedures included:<br>• Reviewing and challenging the assumptions inherent in the valuation of unquoted investments and assessing the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements;<br>• Reviewing the historical financial statements and recent management information available for unquoted investments used to support assumptions about maintainable earnings used in the valuations;<br>• Considering the earnings multiples applied by reference to observable listed company market data; and<br>• Challenging adjustments made to such market data in establishing the earnings multiple applied in arriving at the valuations adopted.<br>For the remaining investments cost reviewed for impairment is typically used as an approximation of fair value. For a sample of these investments we considered the appropriateness of this methodology by considering the proximity of the acquisition to the year end, if appropriate, or the operational performance of the investee company. Where such investments were loans, we also considered wider economic and commercial factors that, in our judgement, could impact on the recoverability and valuation of those loans.<br>For all investments sampled, 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. |

| Risk area | Audit response |
|---|---|
| **Revenue recognition**<br>Revenue consists of dividends receivable from the investee companies and interest earned on loans to investee companies and cash balances. Revenue recognition is considered to be a significant audit risk as it is a key driver of income dividend returns to investors. In particular, as the Company invests primarily in unquoted companies, dividends receivable can be difficult to predict. | We assessed the design and the implementation of the controls relating to revenue recognition and we developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid.<br>We considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest.<br><br>In respect of dividends receivable, we compared actual income to expectations set based on independent published data on dividends declared by the investee companies held. We tested the categorisation of dividends received from the investee companies between the revenue and capital. |

The Audit Committee's consideration of their key issues is set out on pages 33 and 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 | Assessing whether the financial statements as a whole present a true and fair view | • The value of net assets<br>• The level of judgement inherent in the valuation<br>• The range of reasonable alternative valuations | 450,000 |
| Specific materiality – classes of transactions and balances which impact on revenue profits | 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 | 70,000 |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £9,000, 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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 to 35 of the Annual Report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

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

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

# Independent Auditor's Report to the Members of Mobeus Income & Growth 2 VCT plc

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

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 23 and 24, in relation to going concern; 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 our review.

We have nothing to report in respect of these matters.

**Jason Homewood**
*(senior statutory auditor)*
For and on behalf of BDO LLP,
statutory auditor
London
United Kingdom

15 June 2015

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

# Income Statement
*for the year ended 31 March 2015*

| | Notes | Year ended 31 March 2015 Revenue £ | Capital £ | Total £ | 11 months ended 31 March 2014 Revenue £ | Capital £ | Total £ |
|---|---|---|---|---|---|---|---|
| Unrealised (losses)/gains on investments | 8 | – | (1,032,124) | (1,032,124) | – | 3,625,328 | 3,625,328 |
| Realised gains on investments | 8 | – | 4,618,332 | 4,618,332 | – | 24,286 | 24,286 |
| Income | 2 | 1,901,055 | – | 1,901,055 | 2,047,564 | – | 2,047,564 |
| Investment Adviser's fees | 3 | (222,228) | (666,684) | (888,912) | (152,635) | (457,906) | (610,541) |
| Other expenses | 4 | (293,602) | – | (293,602) | (255,016) | – | (255,016) |
| **Profit on ordinary activities before taxation** | | 1,385,225 | 2,919,524 | 4,304,749 | 1,639,913 | 3,191,708 | 4,831,621 |
| Taxation on profit on ordinary activities | 5 | (140,960) | 140,960 | – | (106,850) | 106,850 | – |
| **Profit on ordinary activities after taxation** | | **1,244,265** | **3,060,484** | **4,304,749** | **1,533,063** | **3,298,558** | **4,831,621** |
| **Basic and diluted earnings per share:** | | | | | | | |
| Ordinary shares | 7 | **4.02p** | **9.88p** | **13.90p** | **6.28p** | **13.52p** | **19.80p** |

All the items in the above statement derive from continuing operations.

There were no other gains or losses in the year/period.

The total column of this statement is the profit and loss account of the Company.

Other than revaluation movements arising on investments held at fair value through the profit and loss, there were no differences between the profit as stated above and historical cost.

The notes on pages 44 to 63 form part of these financial statements.

# Balance Sheet
*as at 31 March 2015*
Company number: 03946235

| | Notes | 31 March 2015 £ | 31 March 2014 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 8 | 22,347,631 | 24,532,925 |
| **Current assets** | | | |
| Debtors and prepayments | 10 | 180,065 | 2,596,972 |
| Current investments | 11,17 | 11,235,859 | 3,727,300 |
| Cash at bank | 17 | 8,503,568 | 3,158,216 |
| | | 19,919,492 | 9,482,488 |
| **Creditors: amounts falling due within one year** | 12 | (164,306) | (137,034) |
| **Net current assets** | | 19,755,186 | 9,345,454 |
| **Net assets** | | **42,102,817** | **33,878,379** |
| **Capital and reserves** | | | |
| Called up share capital | 13 | 364,686 | 280,621 |
| Capital redemption reserve | 14 | 79,621 | 73,413 |
| Share premium reserve | 14 | 15,901,497 | 5,363,551 |
| Revaluation reserve | 14 | 1,116,647 | 5,930,144 |
| Special distributable reserve | 14 | 9,537,078 | 11,565,499 |
| Profit and loss reserve | 14 | 15,103,288 | 10,665,151 |
| **Equity shareholders' funds** | | **42,102,817** | **33,878,379** |
| **Basic and diluted net asset value per ordinary share** | **15** | **115.45p** | **120.73p** |

The financial statements were approved and authorised for issue by the Board of Directors on 15 June 2015 and were signed on their behalf by:

**Nigel Melville**
*Chairman*

The notes on pages 44 to 63 form part of these financial statements.

# Reconciliation of Movements in Shareholders' Funds
*for the year ended 31 March 2015*

| | Notes | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|---|
| Opening shareholders' funds | | 33,878,379 | 25,695,376 |
| Net share capital issued in the year/period (net of expenses) | 14 | 10,582,348 | 5,410,938 |
| Share capital bought back | 14 | (652,628) | (740,347) |
| Profit for the year/period | | 4,304,749 | 4,831,621 |
| Dividends paid in the year/period | 6 | (6,010,031) | (1,319,209) |
| **Closing shareholders' funds** | **14** | **42,102,817** | **33,878,379** |

# Cash Flow Statement
*for the year ended 31 March 2015*

| | Notes | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|---|
| **Operating activities** | | | |
| Investment income received | | 1,594,079 | 1,510,256 |
| Dividend income | | 522,340 | 298,109 |
| Other income | | 2,418 | – |
| Investment adviser fees paid | | (888,912) | (610,541) |
| Cash payments for other expenses | | (239,851) | (286,518) |
| **Net cash inflow from operating activities** | 16 | 990,074 | 911,306 |
| **Investing activities** | | | |
| Purchase of investments | 8 | (7,374,456) | (2,341,072) |
| Disposals of investments | 8 | 13,145,958 | 3,246,670 |
| **Net cash inflow from investing activities** | | 5,771,502 | 905,598 |
| **Dividends** | | | |
| Equity dividends paid | 6 | (6,010,031) | (1,319,209) |
| **Cash inflow before financing and liquid resource management** | | 751,545 | 497,695 |
| **Financing** | | | |
| Purchase of own shares | | (680,302) | (761,518) |
| Share capital raised (net of expenses) | 14 | 12,782,668 | 3,210,619 |
| **Net cash inflow from financing** | | 12,102,366 | 2,449,101 |
| **Management of liquid resources** | | | |
| (Increase)/no change in monies held in current investments | 17 | (7,508,559) | – |
| **Increase in cash for the year/period** | **17** | **5,345,352** | **2,946,796** |

# Notes to the Accounts
*for the year ended 31 March 2015*

## 1. Accounting policies

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

### a) Basis of accounting

The accounts have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and 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. The financial statements are prepared under the historical cost convention except for the measurement of certain financial instruments at fair value, which are in accordance with FRS26.

### b) Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The revenue column of the profit attributable to equity shareholders is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 274 Income Tax Act 2007.

### c) Comparatives

In the previous period, the Company changed its financial year end to 31 March and, therefore the comparatives in these financial statements and notes to the accounts relate to the 11 month period ended 31 March 2014.

### d) Investments

All investments held by the Company are classified as "fair value through profit and loss", and are measured in accordance with the International Private Equity and Venture Capital Valuation ("IPEVCV") guidelines, as updated in September 2009. This classification is followed as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income.

For investments actively traded on organised financial markets, fair value is generally determined by reference to Stock Exchange market quoted bid prices at the close of business on the balance sheet date. Purchases and sales of quoted investments are recognised on the trade date where a contract of sale exists whose terms require delivery within a time frame determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional.

Unquoted investments are measured at fair value by the Directors in accordance with the following rules, which are consistent with the IPEVCV guidelines:

All investments are held at the price of a recent investment for an appropriate period where there is considered to have been no change in fair value. Where such a basis is no longer considered appropriate, the following factors will be considered:

(i) Where a value is indicated by a material arms-length transaction by an independent third party in the shares of a company, this value will be used.

(ii) In the absence of i), and depending upon both the subsequent trading performance and investment structure of an investee company, the valuation basis will usually move to either:-

a) an earnings multiple basis. The shares may be valued by applying a suitable price-earnings ratio to that company's historic, current or forecast post-tax earnings before interest and amortisation (the ratio used being based on a comparable sector but the resulting value being adjusted to reflect points of difference identified by the Investment Adviser compared to the sector including, inter alia, a lack of marketability).

or:-

b) where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate. Where the value of an investment has fallen permanently below cost, the loss is treated as a permanent impairment and as a realised loss, even though the investment is still held. The Board assesses the portfolio for such investments and, after agreement with the Investment Adviser, will agree the values that represent the extent to which an investment loss has become realised. This is based upon an assessment of objective evidence of that investment's future prospects, to determine whether there is potential for the investment to recover in value.

(iii) Premiums that will be received upon repayment of loan stock investment are accrued at fair value when the Company receives the right to the premium and when considered recoverable.

(iv) Where an earnings multiple or cost less impairment basis is not appropriate and overriding factors apply, discounted cash flow or net asset valuation bases may be applied.

# Notes to the Accounts
*for the year ended 31 March 2015*

## e) Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are readily convertible into known amounts of cash at their carrying values. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market funds.

## f) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received.

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful or where it will not be received in the foreseeable future. Where the loan stocks only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment, where appropriate.

## g) Capital reserves

(i) *Realised (included within the Profit and Loss Account reserve)*
The following are accounted for in this reserve:

- Gains and losses on realisation of investments;
- Permanent diminution in value of investments;
- Transaction costs incurred in the acquisition of investments; and
- 75% of Investment Adviser fee expense, together with the related tax effect to this reserve in accordance with the policies in 'Expenses' below.

(ii) *Revaluation reserve (Unrealised capital reserve)*
Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

In accordance with stating all investments at fair value through profit and loss, all such movements through both revaluation and realised capital reserves are shown within the Income Statement for the year/period.

(iii) *Special distributable reserve*
The cost of share buybacks are charged to this reserve. In addition, any realised losses on the sale or impairment of investments, and 75% of the Investment Adviser fee expense, and the related tax effect, are transferred from the Profit and Loss Account reserve to this reserve.

(iv) *Share premium reserve*
This reserve contains the excess of gross proceeds less issue costs over the nominal value of shares allotted under recent Offers for Subscription.

(v) *Capital redemption reserve*
The nominal value of shares bought back and cancelled is held in this reserve, so that the Company's capital is maintained.

## h) Expenses

All expenses are accounted for on an accruals basis.

25% of the Investment Adviser's fees are charged to the revenue column of the Income Statement, while 75% is charged against the capital column of the Income Statement. This is in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

100% of any performance incentive fee payable for the year/period is charged against the capital column of the Income Statement, as it is based upon the achievement of capital growth.

Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are written off to the capital column of the Income Statement or deducted from the disposal proceeds as appropriate.

### i) Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in the tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised.

Any tax relief obtained in respect of adviser fees allocated to capital is reflected in the capital reserve – realised and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

## 2. Income

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|
| Income from bank deposits | 29,815 | 3,344 |
| Income from investments | | |
| – from equities | 286,492 | 492,984 |
| – from overseas based OEICs | 10,873 | 9,101 |
| – from UK based OEICs | 4,811 | 4,283 |
| – from loan stock | 1,566,646 | 1,519,044 |
| | 1,868,822 | 2,025,412 |
| Other income | 2,418 | 18,808 |
| **Total income** | **1,901,055** | **2,047,564** |
| **Total income comprises** | | |
| Dividends | 302,176 | 506,368 |
| Interest | 1,596,461 | 1,522,388 |
| Other | 2,418 | 18,808 |
| | **1,901,055** | **2,047,564** |
| **Income from investments comprises** | | |
| Listed overseas securities | 10,873 | 9,101 |
| Unlisted UK securities | 291,303 | 497,267 |
| Loan stock interest | 1,566,646 | 1,519,044 |
| | **1,868,822** | **2,025,412** |

Total loan stock interest due but not recognised in the year was £103,565 (11 months ended 31 March 2014: £210,897).

# Notes to the Accounts
*for the year ended 31 March 2015*

### 3. Investment Adviser's fees

| | Year ended 31 March 2015 | | | 11 months ended 31 March 2014 | | |
|---|---|---|---|---|---|---|
| | Revenue £ | Capital £ | Total £ | Revenue £ | Capital £ | Total £ |
| Mobeus Equity Partners LLP | **222,228** | **666,684** | **888,912** | **152,635** | **457,906** | **610,541** |

Under the terms of a revised investment management agreement dated 10 September 2010, Mobeus Equity Partners LLP ("Mobeus") provides investment advisory, administrative and company secretarial services to the Company, for a fee of 2% per annum calculated on a quarterly basis by reference to the net assets at the end of the preceding quarter, plus a fee of £113,589 per annum, the latter being subject to changes in the retail prices index each year. In 2013, Mobeus has agreed to waive such further increases due to indexation, until otherwise agreed by the Board. In accordance with the policy statement published under "Management and Administration" in the Company's prospectus dated 10 May 2000, the Directors have charged 75% of the investment adviser expenses to the capital account. This is in line with the Board's expectation of the long-term split of returns from the investment portfolio of the Company. For the year ended 31 March 2015, the expense cap hasn't been breached (11 months ended 31 March 2014: £nil).

The Company is responsible for external costs such as legal and accounting fees, incurred on transactions that do not proceed to completion ("abort expenses") subject to the cap on total annual expenses referred to above.

The former C fund performance incentive fee agreement dated 20 September 2005 continues to be in place, and operated as detailed below:

New Ordinary and former C share fund shares

- upon the merger of the two former Share classes on 10 September 2010, the performance incentive fee payable is calculated as an amount equivalent to 20% of the excess of annual dividends paid to the holders of New Ordinary Shares, over the annual dividend target and any dividend shortfall brought forward, as long as the average NAV per share equals or exceeds base NAV, both for that year. This amount is then reduced to the proportion which the C Shares' aggregate merger net asset value represents of the entire merger net asset value of the Company and that ordinary shares more recently issued* also represent, of the total number of shares in issue at each year-end; and
- the dividend shortfall per former C Share and per recently issued ordinary share at 31 March 2015 is 5.05p (£1,462,354 in aggregate, being 79.4% of the total shortfall at the year-end (where 79.4% is the proportion of the total of former C shares, and ordinary shares recently issued* in 2014 and 2015, to the total number of shares in issue at the year-end date).

* During the year, the above incentive fee calculations were updated to include the impact of the new shares issued under the fundraising Offers in 2014 and 2015. These new shares also form part of the estimated proportion of shares that rank for the share of any shortfall or excess of annual dividends paid over the annual dividend target and any dividend shortfall brought forward.

The 6p annual dividend target (7.21p at the year-end) (as adjusted for RPI) and the £1 base NAV maintenance provisions will continue to apply in respect of shares in issue and funds raised at the date of the Share Merger. The £1 base NAV provision is adjusted for shares issued since the share merger, and was 107.51p at the year-end.

In accordance with general market practice, the Investment Adviser earned arrangement fees and fees for supplying Directors and/or monitoring services from investee companies. The share of such fees attributable to the investments made by the Company were £150,817 (11 months ended 31 March 2014: £74,984) and £136,277 (11 months ended 31 March 2014: £105,067) respectively. The fees for supplying directors and/or monitoring services were from 30 (11 months ended 31 March 2014: 23) investee companies during the year/period.

Under the terms of an Offer for Subscription with the other Mobeus advised VCTs launched on 10 December 2014, Mobeus was entitled to fees of 3.25% of the investment amount received from investors. The Offer closed on 10 March 2015, being fully subscribed. Based upon fully subscribed Offers of £39 million across all four VCTS, these fees equalled £1,267,500, out of which all the costs associated with the Offer were met, excluding any payments to advisers facilitated under the terms of the Offers.

## 4. Other expenses

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2015 £ |
|---|---|---|
| Directors' remuneration (including NIC)* | 92,614 | 86,506 |
| IFA trail commission | 49,642 | 37,980 |
| Broker's fees | 12,000 | 11,000 |
| Auditors' fees – audit | 21,060 | 22,860 |
| – tax compliance services | 2,160 | 3,720 |
| – audit-related assurance services | 5,580 | 5,520 |
| Registrar's fees | 21,662 | 23,289 |
| Printing | 34,357 | 18,051 |
| Legal & professional fees | 8,772 | 10,871 |
| VCT monitoring fees | 10,320 | 8,460 |
| Director's insurance | 9,063 | 5,591 |
| Listing and regulatory fees | 24,359 | 19,790 |
| Sundry | 2,013 | 1,378 |
| **Other expenses** | **293,602** | **255,016** |

The Directors consider the auditor was best placed to provide the other services disclosed above. The Audit Committee reviews the nature and extent of these services to ensure that auditor independence is maintained.

* - See analysis in Directors' Remuneration table on page 27.

# Notes to the Accounts
*for the year ended 31 March 2015*

## 5. Taxation on ordinary activities

| | Year ended 31 March 2015 Revenue £ | Capital £ | Total £ | 11 months ended 31 March 2014 Revenue £ | Capital £ | Total £ |
|---|---|---|---|---|---|---|
| **a) Analysis of tax charge:** | | | | | | |
| UK Corporation tax on profits for the year/period | 140,960 | (140,960) | – | 106,850 | (106,850) | – |
| Total current tax charge | **140,960** | **(140,960)** | **–** | **106,850** | **(106,850)** | **–** |
| Corporation tax is based on a rate of 20% (2014: 20%) | | | | | | |
| **b) Profit on ordinary activities before tax** | 1,385,225 | 2,919,524 | 4,304,749 | 1,639,913 | 3,191,708 | 4,831,621 |
| Profit on ordinary activities multiplied by small company rate of corporation tax in the UK of 20% (2014: 20%) | 277,045 | 583,905 | 860,950 | 327,983 | 638,342 | 966,325 |
| ***Effect of:*** | | | | | | |
| UK dividends | (57,298) | – | (57,298) | (98,597) | – | (98,597) |
| Unrealised gains not allowable | – | 206,425 | 206,425 | – | (725,066) | (725,066) |
| Realised gains not taxable | – | (923,666) | (923,666) | – | (4,857) | (4,857) |
| Marginal rate relief | 7,624 | (7,624) | – | 15,269 | (15,269) | – |
| Losses utilised | (86,411) | – | (86,411) | (137,805) | – | (137,805) |
| **Actual current tax charge** | **140,960** | **(140,960)** | **–** | **106,850** | **(106,850)** | **–** |

Tax relief relating to investment adviser fees is allocated between revenue and capital where such relief can be utilised.

No asset or liability has been recognised for deferred tax in relation to capital gains or losses on revaluing investments as the Company is exempt from corporation tax in relation to capital gains or losses as a result of qualifying as a Venture Capital Trust.

There is no potential liability to deferred tax (2014: nil). There is an unrecognised deferred tax asset of £90,934 (2014: £203,946). This unrecognised deferred tax asset relates to taxable losses arising from expenses exceeding taxable income. In the directors' opinion, these are unlikely to be recovered for the foreseeable future and therefore have not been recognised.

## 6. Dividends paid and payable

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|
| **Amounts recognised as distributions to equity holders in the year/period:** | | |
| **Ordinary shares** | | |
| Second Interim income dividend paid for the year ended 31 March 2014 of nil p (year ended 30 April 2013: 0.10p) per share | – | 26,384 |
| Interim capital dividend paid for the year ended 31 March 2015 of 14.00p (11 months ended 31 March 2014: nil p) per share | 4,215,829 | – |
| Interim income dividend paid for the year ended 31 March 2015 of 2.75p (11 months ended 31 March 2014: 4.70p) per share | 986,811 | 1,240,056 |
| Interim capital dividend paid for the year ended 31 March 2015 of 2.25p (11 months ended 31 March 2014: 0.20p) per share | 807,391 | 52,769 |
| **Total paid** | **6,010,031** | **1,319,209** |

Any proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Set out below are the total income dividends payable in respect of the financial year/period, which is the basis on which the requirements of section 274 of the Income Tax Act 2007 are considered.

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|
| **Ordinary shares** | | |
| Revenue available for distribution by way of dividends for the year/period | 1,244,265 | 1,533,063 |
| Interim income dividend for the year ended 31 March 2015 paid of 2.75p (11 months ended 31 March 2014: 4.70p) per share | 986,811 | 1,240,056 |

## 7. Basic and diluted earnings and return per share

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|
| Total earnings after taxation: | 4,304,749 | 4,831,621 |
| **Basic and diluted earnings per share (note a)** | **13.90p** | **19.80p** |
| Net revenue earnings from ordinary activities after taxation | 1,244,265 | 1,533,063 |
| **Basic and diluted revenue earnings per share (note b)** | **4.02p** | **6.28p** |
| Net unrealised capital (losses)/gains | (1,032,124) | 3,625,328 |
| Net realised capital gains | 4,618,332 | 24,286 |
| Capital expenses (net of taxation) | (525,724) | (351,056) |
| Total capital earnings | 3,060,484 | 3,298,558 |
| **Basic and diluted capital earnings per share (note c)** | **9.88p** | **13.52p** |
| Weighted average number of shares in issue in the year/period | 30,966,734 | 24,404,368 |

**Notes:**

a) Basic earnings per share is total earnings after taxation divided by the weighted average number of shares in issue.

b) Revenue earnings per share is the revenue return after taxation divided by the weighted average number of shares in issue.

c) Capital earnings per share is the total capital return after taxation divided by the weighted average number of shares in issue.

d) There are no instruments that will increase the number of shares in issue in future. Accordingly, the above figures currently represent both basic and diluted returns.

# Notes to the Accounts
*for the year ended 31 March 2015*

## 8. Investments at fair value

Movements in investments during the year are summarised as follows:

| | Traded on AIM £ | Unquoted equity shares £ | Unquoted preference shares £ | Loan stock £ | Total £ |
|---|---|---|---|---|---|
| Cost at 31 March 2014 | 254,586 | 6,258,157 | 41,271 | 14,825,743 | 21,379,757 |
| Permanent impairment at 31 March 2014 | (254,586) | (883,876) | (739) | (810,398) | (1,949,599) |
| Unrealised gains/(losses) at 31 March 2014 | – | 4,478,353 | (15,997) | 640,411 | 5,102,767 |
| **Valuation at 31 March 2014** | **–** | **9,852,634** | **24,535** | **14,655,756** | **24,532,925** |
| Purchases at cost | – | 2,305,418 | 1,138 | 6,388,863 | 8,695,419 |
| Sale proceeds | – | (9,478,637) | (17,191) | (5,299,593) | (14,795,421) |
| Reclassified at valuation | – | 1,000 | – | (1,000) | – |
| Realised gains on investments | – | 4,175,690 | 14,286 | 756,856 | 4,946,832 |
| Unrealised (losses)/gains on investments | – | (911,030) | 20,430 | (141,524) | (1,032,124) |
| **Closing valuation at 31 March 2015** | **–** | **5,945,075** | **43,198** | **16,359,358** | **22,347,631** |
| Cost at 31 March 2015 | 254,586 | 7,914,104 | 23,963 | 15,792,128 | 23,984,781 |
| Permanent impairment at 31 March 2015 | (254,586) | (1,688,074) | (739) | (810,398) | (2,753,797) |
| Unrealised (losses)/gains at 31 March 2015 | – | (280,955) | 19,974 | 1,377,628 | 1,116,647 |
| **Valuation at 31 March 2015** | **–** | **5,945,075** | **43,198** | **16,359,358** | **22,347,631** |

A breakdown of the increases and the decreases in unrealised valuations of the portfolio is shown in the Investment Portfolio Summary on pages 16 to 18.

£804,198 of the cost of certain investments were treated as permanently impaired in the year.

### Reconciliation of investment transactions to cash and income statement movements

The difference between sales proceeds above of £14,795,421 and disposals of investments shown by the Cash Flow Statement of £13,145,958, is £1,649,463. This is due to new equity and loan stock instruments of £1,320,963, received as non-cash consideration for the partial sale of ATG Media but included above, and transaction costs of £328,500, not deducted from proceeds above. These transaction costs also account for the difference between realised gains above of £4,946,832 and that shown in the Income Statement of £4,618,332.

The difference between investment purchases above of £8,695,419 and that shown by the Cash Flow Statement of £7,374,456 is £1,320,963, which is the accounting cost of ATG Media Holdings Limited sale proceeds, received in the form of the acquirer's equity and loan stock.

## 9. Significant interests

At 31 March 2015 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

| | Equity investment (Ordinary shares) £ | Investment in loan stock and preference shares £ | Total investment (at cost) £ | Percentage of investee company's total equity |
|---|---|---|---|---|
| ASL Technology Holdings Limited | 372,184 | 1,719,825 | 2,092,009 | 10.3% |
| Media Business Insight Holdings Limited (formerly South West Services Investment Limited)* | 803,628 | 1,205,444 | 2,009,072 | 11.6% |
| Entanet Holdings Limited (formerly Ackling Management Limited) | 273,617 | 1,170,473 | 1,444,090 | 6.4% |
| Turner Topco Limited (trading as ATG Media Holdings) | 3,863 | 1,317,100 | 1,320,963 | 3.3% |
| Virgin Wines Holding Company Limited | 30,541 | 1,253,792 | 1,284,333 | 6.4% |
| Fullfield Limited (trading as Motorclean) | 418,765 | 857,839 | 1,276,604 | 8.9% |
| PXP Holdings Limited (trading as Avebury Projects) | 1,220,579 | – | 1,220,579 | 7.5% |
| Gro-Group Holdings Limited | 105,880 | 1,017,208 | 1,123,088 | 6.0% |
| RDL Corporation Limited | 173,932 | 826,068 | 1,000,000 | 9.1% |
| Racoon International Holdings Limited | 906,935 | 91,205 | 998,140 | 22.7% |
| Veritek Global Limited | 26,001 | 941,779 | 967,780 | 6.2% |
| Hollydale Management Limited | 354,000 | 531,000 | 885,000 | 8.9% |
| Knighton Management Limited | 354,000 | 531,000 | 885,000 | 8.9% |
| Leap New Co Limited (trading as Ward Thomas Removals and Bishopgate) | 259,094 | 589,406 | 848,500 | 4.5% |
| Tharstern Group Limited | 245,115 | 544,700 | 789,815 | 8.8% |
| Tessella Holdings Limited | 151,559 | 605,584 | 757,143 | 3.9% |
| Bourn Bioscience Limited | 216,316 | 540,785 | 757,101 | 5.1% |
| CGI Creative Graphics International Limited | 328,613 | 402,419 | 731,032 | 4.3% |
| Manufacturing Services Investment Limited | 304,000 | 304,000 | 608,000 | 7.6% |
| Blaze Signs Holdings Limited | 419,549 | 17,481 | 437,030 | 13.5% |
| The Plastic Surgeon Holdings Limited | 39,229 | 353,035 | 392,264 | 5.9% |
| Aussie Man & Van Limited | 114,077 | 259,264 | 373,341 | 4.5% |
| Newquay Helicopters (2013) Limited | 225,000 | 1,000 | 226,000 | 10.0% |
| Vectair Limited | 60,075 | 218 | 60,293 | 5.2% |
| Lightworks Software Limited | 25,727 | – | 25,727 | 11.6% |

It is considered that, as required by FRS9, "Associates and Joint Ventures", the above investments are held as part of an investment portfolio, and that accordingly, their value to the Company lies in their marketable value as part of that portfolio. In view of this, it is not considered that any of the above represent investments in associated undertakings.

All of the above companies are incorporated in the United Kingdom.

* - Includes a loan of £561,884 to Media Business Insight Limited.

# Notes to the Accounts
*for the year ended 31 March 2015*

At 31 March 2015, Mobeus Equity Partners LLP also advised The Income & Growth VCT plc, Mobeus Income & Growth VCT plc and Mobeus Income & Growth 4 VCT plc, who had investments in the following:

| | Mobeus Income & Growth VCT plc[1] at cost £ | Mobeus Income & Growth 4 VCT plc at cost £ | The Income & Growth VCT plc at cost £ | Total at cost £ | % of equity held by funds managed by Mobeus % |
|---|---|---|---|---|---|
| Media Business Insight Holdings Limited (formerly South West Services Investment Limited)[2] | 3,282,263 | 2,722,760 | 3,666,556 | 9,671,579 | 67.5 |
| Entanet Holdings Limited (formerly Ackling Management Limited) | 2,713,077 | 2,167,662 | 3,175,171 | 8,055,910 | 42.0 |
| ASL Technology Holdings Limited | 2,942,292 | 1,933,591 | 2,722,106 | 7,597,989 | 47.5 |
| Virgin Wines Holding Company Limited | 2,439,352 | 1,930,813 | 2,745,503 | 7,115,668 | 42.0 |
| Veritek Global Limited | 2,045,275 | 1,620,086 | 2,289,858 | 5,955,219 | 44.0 |
| Gro-Group Holdings Limited | 1,975,007 | 1,577,977 | 2,398,928 | 5,951,912 | 37.6 |
| Turner Topco Limited (trading as ATG Media) | 2,501,087 | 1,529,075 | 1,529,075 | 5,559,237 | 17.1 |
| Fullfield Limited (trading as Motorclean) | 2,024,422 | 1,408,968 | 1,890,008 | 5,323,398 | 46.0 |
| Leap New Co Limited (trading as Ward Thomas Removals and Bishopsgate) | 1,410,500 | 1,175,000 | 1,566,000 | 4,151,500 | 26.4 |
| Knighton Management Limited | 1,465,500 | 1,095,500 | 1,554,000 | 4,115,000 | 50.0 |
| Hollydale Management Limited | 1,465,500 | 1,095,500 | 1,554,000 | 4,115,000 | 50.0 |
| RDL Corporation Limited | 1,558,334 | 1,000,000 | 1,441,667 | 4,000,001 | 45.2 |
| Tharstern Group Limited | 1,376,520 | 1,091,886 | 1,454,278 | 3,922,684 | 52.5 |
| Tessella Holdings Limited | 1,402,165 | 1,059,321 | 1,457,368 | 3,918,854 | 24.0 |
| CGI Creative Graphics International Limited | 1,321,935 | 1,060,269 | 1,421,702 | 3,803,906 | 26.9 |
| EOTH Limited (trading as Equip Outdoor Technologies) | 1,298,031 | 951,471 | 1,383,313 | 3,632,815 | 8.0 |
| Manufacturing Services Investment Limited | 1,142,400 | 912,800 | 1,336,800 | 3,392,000 | 50.0 |
| PXP Holdings Limited (trading as Avebury Projects) | 1,277,722 | 712,925 | 965,371 | 2,956,018 | 32.9 |
| Bourn Bioscience Limited | – | 1,132,521 | 1,610,379 | 2,742,900 | 23.8 |
| Racoon International Holdings Limited | 1,213,035 | 462,192 | 625,851 | 2,301,078 | 47.5 |
| Aussie Man & Van Limited | 620,620 | 517,000 | 689,040 | 1,826,660 | 26.4 |
| The Plastic Surgeon Holdings Limited | 478,421 | 458,837 | 406,082 | 1,343,340 | 30.0 |
| Blaze Signs Holdings Limited | 491,797 | 190,631 | 418,281 | 1,100,709 | 52.5 |
| Legion Group plc | 150,106 | 150,102 | 150,000 | 450,208 | 0.0 |
| Newquay Helicopters (2013) Limited | 226,000 | 56,500 | 113,000 | 395,500 | 34.9 |
| Lightworks Software Limited | 222,584 | 9,329 | 20,471 | 252,384 | 45.0 |
| Vectair Holdings Limited | 138,574 | 24,732 | 53,400 | 216,706 | 24.0 |

[1] - The cost for Mobeus Income & Growth VCT plc (formerly Matrix Income & Growth VCT plc) includes the original cost of acquiring investments previously owned by Matrix Income & Growth 3 VCT plc.

[2] - This includes loan investments in Media Business Insight Limited.

## 10. Debtors

| | As at 31 March 2015 £ | As at 31 March 2014 £ |
|---|---|---|
| Amounts due within one year: | | |
| Accrued income | 174,166 | 391,947 |
| Prepayments | 5,815 | 4,621 |
| Other debtors | 84 | 2,200,404 |
| | **180,065** | **2,596,972** |

## 11. Current asset investments

This comprises cash invested in four OEIC money market funds (three Dublin based and one London based) and in three bank deposits. £3,727,300 (2014: £3,727,300) is in OEIC money market funds and £3,008,559 (2014: £nil) is held in bank deposits, both subject to immediate access. £4,500,000 (2014: £nil) is held in bank deposits, repayable within one year. All these sums are regarded as monies held pending investment and are treated as liquid resources in the Cash Flow Statement and in note 17.

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

| | As at 31 March 2015 £ | As at 31 March 2014 £ |
|---|---|---|
| Trade creditors | 6,442 | 31,816 |
| Other creditors | 12,121 | 10,494 |
| Accruals | 145,743 | 94,724 |
| | **164,306** | **137,034** |

## 13. Called up share capital

| | As at 31 March 2015 £ | As at 31 March 2014 £ |
|---|---|---|
| **Allotted, called-up and fully paid:** | | |
| Ordinary shares of 1p each: 36,468,632 (2014: 28,062,140) | **364,686** | **280,621** |

| Purchased | Date of purchase | Nominal value £ |
|---|---|---|
| 225,000 | 23 June 2014 | 2,250 |
| 159,045 | 04 July 2014 | 1,590 |
| 116,748 | 29 September 2014 | 1,167 |
| 120,000 | 18 December 2014 | 1,200 |
| **620,793** | | **6,207** |

During the year/period, the Company repurchased 620,793 (11 months ended 31 March 2014: 747,336) of its own ordinary shares, representing 2.2% (11 months ended 31 March 2014: 3.1%) of the ordinary shares in issue at the start of the year, at the prevailing market price for a total cost of £652,628 (11 months ended 31 March 2014: £740,347).

As part of the Linked Offer for Subscription launched on 28 November 2013, a total of 2,434,970 ordinary shares were allotted at average effective offer prices ranging from 118.66 pence to 119.82 pence per share, raising net funds of £2,782,977.

As part of the VCT Offer for Subscription launched on 10 December 2014, a total of 6,592,315 ordinary shares were allotted at average effective offer prices ranging from 118.44 to 124.35 pence per share, raising net funds of £7,799,371.

## 14. Movement in share capital and reserves

| | Called up Share capital £ | Capital redemption reserve £ | Share premium £ | Revaluation reserve £ | Special distributable reserve* £ | Profit and loss account* £ | Total £ |
|---|---|---|---|---|---|---|---|
| At 31 March 2014 | 280,621 | 73,413 | 5,363,551 | 5,930,144 | 11,565,499 | 10,665,151 | 33,878,379 |
| Shares issued under Offers for Subscription (note a) | 90,273 | – | 10,811,491 | – | – | – | 10,901,764 |
| Expenses of share offers (note a) | – | – | (273,545) | – | (45,871) | – | (319,416) |
| Share buybacks | (6,208) | 6,208 | – | – | (652,628) | – | (652,628) |
| Transfer of realised losses to Special distributable reserve (note b) | – | – | – | – | (1,329,922) | 1,329,922 | – |
| Realisation of previously unrealised gains | – | – | – | (3,781,373) | – | 3,781,373 | – |
| Dividends paid | – | – | – | – | – | (6,010,031) | (6,010,031) |
| Profit for the year | – | – | – | (1,032,124) | – | 5,336,873 | 4,304,749 |
| **As at 31 March 2015** | **364,686** | **79,621** | **15,901,497** | **1,116,647** | **9,537,078** | **15,103,288** | **42,102,817** |

* - These reserves total £24,640,366 (2014: £21,976,064) and are regarded as distributable reserves for the purpose of assessing the Company's ability to pay dividends to shareholders. All of the special distributable reserve originates from funds raised before 6 April 2014.

The Company's revaluation reserve represents the capital reserve (unrealised) upon investments held at the year-end.

**Note a:** Shares issued as part of Offers for Subscription (net of expenses) per the Cash Flow Statement of £12,782,668 differ to that shown as shares issued above of £10,582,348 (net of expenses of £319,416) by £2,200,320, being net funds due to the Company arising from shares issued on 31 March 2014, which was a debtor at the previous period-end, since received.

**Note b:** The cancellation of the formerly named C Share Fund's share premium account (as approved at the Extraordinary General meeting held on 10 September 2008 and by the order of the Court dated 28 October 2009), together with the previous cancellation of the share premium account attributable to the former Ordinary Share Fund and C Shares, has provided the Company with a special distributable reserve. The purpose of this reserve is to fund market purchases of the Company's own shares as and when it is considered by the Board to be in the interests of the shareholders, and to write-off existing and future losses as the Company must take into account capital losses in determining distributable reserves. The total transfer of £1,329,922 from the special distributable reserve to the profit and loss account is the total of realised losses incurred by the Company in the year.

## 15. Basic and diluted net asset value per share

Net asset value per ordinary share is based on net assets at the end of the year/period, and on 36,468,632 (2014: 28,062,140) ordinary shares, being the number of ordinary shares in issue on that date.

## 16. Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities

| | Year ended 31 March 2015 £ | 11 months ended 31 March 2014 £ |
|---|---|---|
| Profit on ordinary activities before taxation | 4,304,749 | 4,831,621 |
| Net gains on realisations of investments | (4,618,332) | (24,286) |
| Net unrealised losses/(gains) on investments | 1,032,124 | (3,625,328) |
| Decrease/(increase) in debtors | 216,588 | (238,846) |
| Increase/(decrease) in creditors and accruals | 54,945 | (31,855) |
| Net cash inflow from operating activities | **990,074** | **911,306** |

## 17. Analysis of changes in net funds

| | Cash at bank £ | Liquid resources £ | Total £ |
|---|---|---|---|
| At beginning of year | 3,158,216 | 3,727,300 | 6,885,516 |
| Cash flows | 5,345,352 | 7,508,559 | 12,853,911 |
| **At 31 March 2015** | **8,503,568** | **11,235,859** | **19,739,427** |

Within the Cash at bank figure of £8,503,568 is an amount of £7,636,500 held at a solicitor's client account pending investment. These investments were completed after the year-end as detailed in note 21.

## 18. Financial instruments

The Company's financial instruments in both the current year and the previous period comprise:

- Equity and preference shares and fixed and floating rate interest securities that are held in accordance with the Company's investment objective.
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

The principal purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors. It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

### Classification of financial instruments

The Company held the following categories of financial instruments at 31 March 2015:

| | As at 31 March 2015 | | As at 31 March 2014 | |
|---|---|---|---|---|
| | (Book value) £ | (Fair value) £ | (Book value) £ | (Fair value) £ |
| **Assets at fair value through profit and loss:** | | | | |
| Investment portfolio | 22,347,631 | 22,347,631 | 24,532,925 | 24,532,925 |
| Current investments | 11,235,859 | 11,235,859 | 3,727,300 | 3,727,300 |
| **Loans and receivables** | | | | |
| Accrued income | 174,166 | 174,166 | 391,947 | 391,947 |
| Other debtors | 84 | 84 | 2,200,404 | 2,200,404 |
| Cash at bank | 8,503,568 | 8,503,568 | 3,158,216 | 3,158,216 |
| **Liabilities at amortised cost or equivalent** | | | | |
| Other creditors | (164,306) | (164,306) | (137,034) | (137,034) |
| Total for financial instruments | 42,097,002 | 42,097,002 | 33,873,758 | 33,873,758 |
| Non financial instruments | 5,815 | 5,815 | 4,621 | 4,621 |
| **Net assets** | **42,102,817** | **42,102,817** | **33,878,379** | **33,878,379** |

The investment portfolio principally consists of unquoted investments of 100.0% (31 March 2014: 100.0%). The investment portfolio has a 100% (31 March 2014: 100%) concentration of risk towards small UK based, sterling denominated companies, and represents 53.1% (31 March 2014: 72.4%) of net assets at the year/period-end.

Current investments are money market funds, and bank deposits which, along with cash at bank and monies held with a solicitor pending investment are discussed under credit risk below, which represent 46.9% (31 March 2014: 20.3%) of net assets at the year/period-end.

The main risk arising from the Company's financial instruments are due to liquidity risk, particularly with the investment portfolio, the credit risk, particularly of the investment portfolio, but also of other assets, fluctuations in market prices (market price risk), and cash flow interest rate risk, although currency risk is also discussed below. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These have been in place throughout the current and preceding years.

# Notes to the Accounts
*for the year ended 31 March 2015*

### Liquidity risk

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded, and thus they are not readily realisable. The ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers and, as the Company owns minority stakes, would require a number of months and the co-operation of other shareholders to achieve at a reasonable valuation. The Company's ability to sell investments may also be constrained by the requirements set down for VCTs. The maturity profile of the Company's loan stock investments disclosed within the consideration of credit risk below indicates that these assets are also not readily realisable until dates up to five years from the year-end.

To counter these risks to the Company's liquidity, the Investment Adviser maintains sufficient cash and money market funds to meet running costs and other commitments. The Company invests its surplus funds in high quality money market funds and bank deposits of £11,235,859 which are all accessible at varying points over the next 12 months.

### Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company's maximum exposure to credit risk is:

| | As at 31 March 2015<br>£ | As at 31 March 2014<br>£ |
|---|---|---|
| Loan stock investments | 16,359,358 | 14,655,756 |
| Preference shares | 43,198 | 24,535 |
| Current investments | 11,235,859 | 3,727,300 |
| Accrued income and other debtors | 174,250 | 2,592,351 |
| Cash at bank | 8,503,568 | 3,158,216 |
| | **36,316,233** | **24,158,158** |

The Company has an exposure to credit risk in respect of the loan stock investments it has made into investee companies, most of which have no security attached to them, and where they do, such security ranks beneath any bank debt that an investee company may owe.

The loan stock is held in companies with turnover under £50m, which may be considered less stable than larger, longer established businesses.

The accrued income shown above was all due within three months of the year-end.

The following table shows the maturity of the loan stock investments referred to above. In some cases, the loan maturities are not the contractual ones, but are the best estimate using management's expectations of when it is likely that such loans may be repaid.

| Repayable within | As at 31 March 2015<br>£ | As at 31 March 2014<br>£ |
|---|---|---|
| 0 to 1 year | 39,057 | 399,757 |
| 1 to 2 years | 2,589,022 | 1,445,298 |
| 2 to 3 years | 1,512,680 | 5,267,320 |
| 3 to 4 years | 5,018,856 | 2,041,996 |
| 4 to 5 years | 7,199,743 | 5,501,385 |
| **Total** | **16,359,358** | **14,655,756** |

There is one loan which is past its capital repayment date. This loan has a carrying value of £423,408 and has not yet been renegotiated. These loan stock investments are made as part of the qualifying investments within the investment portfolio, and the risk management processes applied to the loan stock investments have already been set out under market price risk above.

An aged analysis of the loan stock investments included on page 57, which are past due but not individually impaired, is set out below. For this purpose, these loans are considered to be past due when any payment due date under the loan's contractual terms (such as payment of interest) is received late or missed. The loans in the table below are all considered to be past due because interest on the loan is outstanding and/or the loan is past its contractual repayment date, and has not been renegotiated. We are required to report in this format and include the full value of the loan. The figure has fallen, as £699,966 of the 2014 figure has been realised, while the interest on £1,357,148 of last year's loans has been recapitalised and is now being paid or is not past due. Against these reductions, the loan of £423,408 referred to above has also been included in this year's figure of £423,408.

| | 0 - 6 months £ | 6 - 12 months £ | over 12 months £ | As at 31 March 2015 Total £ |
|---|---|---|---|---|
| Loans to investee companies past due | **423,408** | – | – | **423,408** |

| | 0 - 6 months £ | 6 - 12 months £ | over 12 months £ | As at 31 March 2014 Total £ |
|---|---|---|---|---|
| Loans to investee companies past due | – | – | **2,057,114** | **2,057,114** |

There is a risk of default by the money market funds above, which could suffer defaults within their underlying portfolios that could affect the values at which the Company could sell its holdings. The OEIC money market funds are all triple A rated funds and, along with bank deposits of £7,508,559 at three well-known institutions classified within 'Current investments', credit risk is considered to be relatively low in current circumstances. The Board manages credit risk in respect of these money market funds and cash by ensuring a spread of such investments such that none should exceed 15% of the Company's total investment assets. The cash at bank figure comprises £867,068 held at Barclays Bank plc and £7,636,500 held at a solicitor's client account pending investment, where the risk of default is considered to be low.

There could also be a failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered. This risk is considered to be small as most of the Company's investment transactions are in unquoted investments, where investments are conducted through solicitors, to ensure that payment matches delivery. In respect of any quoted investment transactions that are undertaken, the Company uses brokers with a high credit quality, and these trades usually have a short settlement period. Accordingly, counterparty risk is considered to be relatively low.

### Market price risk

Market price risk arises from uncertainty about the future valuations of financial instruments held in accordance with the Company's investment objectives. These future valuations are determined by many factors but include the operational and financial performance of the underlying investee companies, as well as market perceptions of the future performance of the UK economy and its impact upon the economic environment in which these companies operate. This risk represents the potential loss that the Company might suffer through holding its investment portfolio in the face of market movements, which was a maximum of £22,347,631 at the year-end.

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded and as such the prices are more uncertain than those of more widely traded securities. As, in a number of cases, the unquoted investments are valued by reference to price earnings ratios prevailing in quoted comparable sectors, their valuations are exposed to changes in the price earnings ratios that exist in the quoted markets.

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equities and loan stock investments is determined by the requirement to meet the Company's Investment Objective, as set out on the inside front cover. As part of the investment management process, the Board seeks to maintain an appropriate spread of market risk, and also has full and timely access to relevant information from the Investment Adviser. No single investment is permitted to exceed 15% of total investment assets at the point of investment. The Investment Committee meets regularly and reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Company does not use derivative instruments to hedge against market risk.

# Notes to the Accounts
*for the year ended 31 March 2015*

**Market price risk sensitivity**

The Board believes that the Company's assets are mainly exposed to market price risk, as the Company is required to hold most of its assets in the form of sterling denominated investments in small companies.

All of these assets are unquoted. All of the investments made by the Investment Adviser in unquoted companies, irrespective of the instruments the Company actually holds, (whether shares, preference shares or loan stock) carry a full market risk, even though some of the loan stocks may be secured on assets, but behind any prior ranking bank debt in the investee company.

The Board considers that the value of investments in equity and loan stock instruments are ultimately sensitive to changes in quoted share prices, insofar as such changes eventually affect the enterprise value of unquoted companies. The table below shows the impact on profit and net assets if there were to be a 20% (2014: 20%) movement in overall share prices, which might in part be caused by changes in interest rate levels. However, it is not considered possible to evaluate separately the impact of changes in interest rates upon the value of the Company's portfolios of investments in small, unquoted companies.

The sensitivity analysis below assumes that each of these sub categories of investments (shares, preference shares and loan stocks) held by the Company produces a movement overall of 20% (2014: 20%), and that the actual portfolio of investments held by the Company is perfectly correlated to this overall movement in share prices. However, shareholders should note that this level of correlation is unlikely to be the case in reality, particularly in the case of the loan stock instruments. This is because loan stock instruments would not share in the impact of any increase in share prices to the same extent as the equity instruments, as the returns are set by reference to interest rates and premiums agreed at the time of initial investment. Similarly, where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to market price risk in isolation.

| | As at 31 March 2015 Profit and net assets £ | As at 31 March 2014 Profit and net assets £ |
|---|---|---|
| If overall share prices rose/fell by 20% (2014: 20%), with all other variables held constant – increase/(decrease) | 4,469,526 / 4,469,526 | 4,906,585 / (4,906,585) |
| Increase/(decrease) in earnings, and net asset value, per ordinary share (in pence) | 12.26p / (12.26)p | 17.48p / (17.48)p |

The impact of a change of 20% (2014: 20%) has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement. The range in equity prices is considered reasonable given the historic changes that have been observed.

### Cash flow interest rate risk

The Company's fixed and floating rate interest securities, its equity and preference equity investments and net revenue may be affected by interest rate movements. Investments are often in relatively small businesses, which are relatively high risk investments sensitive to interest rate fluctuations.

Due to the short time to maturity of some of the Company's floating rate investments, it may not be possible to re-invest in assets which provide the same rates as those currently held.

The Company's assets include fixed and floating rate interest instruments, as shown below. The rate of interest earned is regularly reviewed by the Board, as part of the risk management processes applied to these instruments, already disclosed under market price risk above.

The interest rate profile of the Company's financial net assets at 31 March 2015 was:

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 5,945,075 | – | – | 5,945,075 | | |
| Preference shares | – | 43,198 | – | 43,198 | 0.2 | 2.2 |
| Loan stocks | – | 14,993,358 | 1,366,000 | 16,359,358 | 8.6 | 3.7 |
| Current investments | – | 500,000 | 10,735,859 | 11,235,859 | 0.6 | |
| Cash | – | – | 8,503,568 | 8,503,568 | 0.5 | |
| Debtors | 174,250 | – | – | 174,250 | | |
| Creditors | (164,306) | – | – | (164,306) | | |
| Total for financial instruments | 5,955,019 | 15,536,556 | 20,605,427 | 42,097,002 | | |
| Non-financial instruments | 5,815 | – | – | 5,815 | | |
| **Net assets** | **5,960,834** | **15,536,556** | **20,605,427** | **42,102,817** | | |

The interest rate profile of the Company's financial net assets at 31 March 2014 was:

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 9,852,634 | – | – | 9,852,634 | | |
| Preference shares | – | 24,535 | – | 24,535 | 6.4 | 1.0 |
| Loan stocks | – | 13,988,156 | 667,600 | 14,655,756 | 8.3 | 3.2 |
| Current investments | – | – | 3,727,300 | 3,727,300 | 0.4 | |
| Cash | – | – | 3,158,216 | 3,158,216 | 0.7 | |
| Debtors | 2,592,351 | – | – | 2,592,351 | | |
| Creditors | (137,034) | – | – | (137,034) | | |
| Total for financial instruments | 12,307,951 | 14,012,691 | 7,553,116 | 33,873,758 | | |
| Non-financial instruments | 4,621 | – | – | 4,621 | | |
| **Net assets** | **12,312,572** | **14,012,691** | **7,553,116** | **33,878,379** | | |

Note: Weighted average interest rates above are derived by calculating the expected annual income that would be earned on each asset (but only for those sums that are currently regarded as collectible and would therefore be recognised), divided by the values for each asset class at the balance sheet date.

Floating rate cash earns interest based on LIBOR rates.

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

# Notes to the Accounts
*for the year ended 31 March 2015*

### Cash flow interest rate sensitivity

Although the Company holds investments in loan stocks that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes in isolation upon the value of the unquoted investment portfolio, as interest rate changes are only one factor affecting the market price movements that are discussed above under market price risk. However, as the Company has a substantial proportion of its assets in cash and money market funds, the table below shows the sensitivity of income earned to changes in interest rates in these instruments:

| | As at 31 March 2015<br>£<br>Profit and net assets | As at 31 March 2014<br>£<br>Profit and net assets |
|---|---|---|
| If interest rates rose/fell by 1%, with all other variables held constant – increase/(decrease) | 164,843 / (164,843) | 60,425 / (60,425) |
| Increase/(decrease) in earnings, and net asset value, per Ordinary share (in pence) | 0.45p / (0.45p) | 0.22p / (0.22)p |

### Currency risk

All assets and liabilities are denominated in sterling and therefore there is no currency risk, although a number of investee companies do trade overseas, so do face some exposure to currency risk in their operations.

### Fair value hierarchy

The table below sets out fair value measurements using FRS29 fair value hierarchy. The Company has one class of assets, being at fair value through profit and loss.

| Financial assets at fair value through profit and loss<br>At 31 March 2015 | Level 1<br>£ | Level 2<br>£ | Level 3<br>£ | Total<br>£ |
|---|---|---|---|---|
| Equity investments | – | – | 5,945,075 | 5,945,075 |
| Preference shares | – | – | 43,198 | 43,198 |
| Loan stock investments | – | – | 16,359,358 | 16,359,358 |
| Current investments | 11,235,859 | – | – | 11,235,859 |
| **Total** | **11,235,859** | **–** | **22,347,631** | **33,583,490** |

There are currently no financial liabilities at fair value through profit and loss.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets
Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.
Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the company are explained in the accounting policies in note 1.

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out below:

| | Equity investments £ | Preference shares £ | Loan stock investments £ | Total £ |
|---|---|---|---|---|
| **Opening balance at 1 April 2014** | 9,852,634 | 24,535 | 14,655,756 | 24,532,925 |
| Purchases | 2,305,418 | 1,138 | 6,388,863 | 8,695,419 |
| Sales | (9,478,637) | (17,191) | (5,299,593) | (14,795,421) |
| Reclassification* | 1,000 | – | (1,000) | – |
| Total gains/(losses) included in Income Statement: | | | | – |
| – on assets sold | 4,175,690 | 14,286 | 756,856 | 4,946,832 |
| – on assets held at the year end | (911,030) | 20,430 | (141,524) | (1,032,124) |
| **Closing balance at 31 March 2015** | **5,945,075** | **43,198** | **16,359,358** | **22,347,631** |

* - During the year, as part of a further investment into the business, the existing loan stock in Racoon International was exchanged for new equity.

As detailed in the accounting policies note, where investments are valued on an earnings-multiple basis, the main input used for this basis of valuation is a suitable price-earnings ratio taken from a comparable sector on the quoted market. These ratios are correlated to the share prices and so any change in share prices will have a significant effect on the fair value measurements of the investments classified as Level 3 investments.

Level 3 unquoted equity and loan stock investments are valued in accordance with the IPEVCV guidelines as follows:

| | 31 March 2015 £ | 31 March 2014 £ |
|---|---|---|
| **Investment methodology** | | |
| Cost (reviewed for impairment) | 2,604,000 | 1,608,647 |
| Asset value supporting security held | – | 699,966 |
| Recent investment price | 4,871,373 | 4,075,548 |
| Earnings multiple | 14,872,258 | 17,245,778 |
| Realisation proceeds | – | 902,986 |
| | **22,347,631** | **24,532,925** |

The unquoted equity investments had the following movements between valuation methodologies between 31 March 2014 and 31 March 2015:

| Change in valuation methodology (2014 to 2015) | Carrying value as at 31 March 2015 £ | Explanatory note |
|---|---|---|
| Recent investment price to earnings multiple | 5,252,288 | Sufficient time has elapsed since investment such that earnings multiple is a more appropriate basis for determining fair value. |
| Cost (reviewed for impairment) to Recent investment price | 119,613 | Follow on investment made |

The valuation will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the September 2009 IPEVCV guidelines. The directors believe that, within these parameters, there are no other appropriate methods of valuation which would be reasonable as at 31 March 2015.

# Notes to the Accounts
*for the year ended 31 March 2015*

FRS 29 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives, the value of the unquoted investments would be £1,570,000 or 7.0% lower. Using the upside alternatives the value would be increased by £1,504,000 or 6.7%. In arriving at both these figures, a 5% change to earnings multiples was applied. For the upside alternatives only, amended maintainable earnings figures were used for three portfolio companies.

## 19. Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and to provide an adequate return to shareholders by allocating its capital to assets commensurate with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the Investment Policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to shareholders. There has been no change in this approach from the previous period.

## 20. Segmental analysis

The operations of the Company are wholly in the United Kingdom, from one class of business.

## 21. Post balance sheet events

On 1 April 2015, the Company invested £848,500 into each of eight acquisition vehicles, namely Backhouse Management Limited, Barham Consulting Limited, Chatfield Services Limited, Creasy Marketing Services Limited, McGrigor Management Limited, Pound FM Consultants Limited, Tovey Management Limited and Vian Marketing Limited.

On 2 April 2015, the Company also invested £840,015 into Duncary 16 Limited, an acquisition vehicle. On 23 April 2015, Duncary 16 Limited was used to support the MBO of Synbra UK Limited, the UK's largest domestic manufacturer of expanded polystyrene products. Duncary 16 has since changed its name to Jablite Holdings Limited.

On 21 May 2015, a further £56,698 of proceeds were received in respect of the sale of Youngman Group Limited.

On 29 May 2015, the Company received a partial loan repayment from Jablite Holdings Limited (formerly Duncary 16 Limited) realising proceeds of £169,700 including premium of £46,927.

On 3 June 2015, the Company made a further investment in CGI Creative Graphics International Limited of £268,536.

# Shareholder Information

## Communication with Shareholders

We aim to communicate regularly with our shareholders. In addition to the Half-Yearly and Annual Reports, shareholders receive a twice-yearly VCT Newsletter from the Investment Adviser, approved by the Board in July and January of each year. The newsletter contains certain information on the investment portfolio, the latest performance figures and details of the VCT's latest investment activity. The September annual general meeting provides a useful platform for the Board to meet Shareholders and exchange views. Your Board welcomes your attendance at general meetings to give you the opportunity to meet your Directors and representatives of the Investment Adviser.

Recent changes to the European Commission's Transparency Directive mean that the Company is no longer required to publish Interim Management Statements. However, the Board intends to continue doing so, in order to provide shareholders with updated information about the Company.

Shareholders wishing to follow the Company's progress can visit the Company's website at www.mig2vct.co.uk which contains publicly available information or links to information about our largest investments, the latest NAV and the share price. The London Stock Exchange's website at www.londonstockexchange.com/prices-and-markets/stocks/stocks-and-prices.htm provides up to the minute details of the share price and latest NAV announcements, etc. A number of commentators such as Tax Efficient Review at www.taxefficientreview.com provide comparative performance figures for the VCT sector as a whole. The share price is also available from the Company's website.

### Mobeus website

The Investment Adviser's website can be accessed by going to www.mobeusequity.co.uk. This is regularly updated with information on your investments including case studies of portfolio companies. The Company continues to have its own dedicated section of the website which shareholders may prefer to access directly by going to www.mig2vct.co.uk. This includes performance tables and details of dividends paid as well as copies of past reports to shareholders. Videos of the presentations and Q & A sessions from the recent investor event can also be viewed here.

### Electronic Communications

The Company has adopted electronic communications, which enables shareholders to choose between electing to receive communications by email or as hard copies through the post. Many shareholders who have not specifically chosen either of these options receive a letter notifying them where to access the reports on the website.

### Annual General Meeting

The next Annual General Meeting of the Company will be held on 10 September 2015 at 12 noon at 33 St James's Square, London SW1Y 4JS. Please try to arrive 10 minutes before the meeting starts when tea and coffee will be served to Shareholders. A short presentation will be given by the Investment Adviser during the AGM. The Notice of the meeting is included on pages 69 to 71 of this Annual Report. Proxy votes may also be submitted electronically via the Capita Shareholder Portal www.capitashareportal.com. Proxy forms for use at the Meeting is enclosed separately with shareholders' copies of this Annual Report. Proxy forms should be completed in accordance with the instructions printed thereon and sent to the Company's Registrars, Capita Asset Services, to arrive no later than 12 noon on 8 September 2015.

### Shareholder event

The Investment Adviser held a further successful event on 27 January 2015 at the Royal Institute of British Architects in Central London. The event provided a forum for about 270 Mobeus VCT shareholders to hear presentations from the Adviser and learn more about its investment activity in greater depth from the Managing Director of Virgin Wines and the Chairman of Tessella and Tharstern. The Investment Adviser is planning a future event in the first quarter of 2016.

## Shareholder enquiries and investment monitoring

For enquiries concerning the investment portfolio, please contact the Investment Adviser, Mobeus Equity Partners LLP, on 020 7024 7600 or by e-mail to vcts@mobeusequity.co.uk.

For information on your holding, to notify the Company of a change of address or to request a dividend mandate form (should you wish to have future dividends paid directly into your bank account) please contact the Company's Registrar, Capita Asset Services, on +44 (0) 371 664 0324 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Telephone lines are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales. You can also write to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Alternatively you can contact them via their website at www.capitashareportal.com.

# Shareholder Information

To contact the Chairman or any member of Board, please contact the Company Secretary, Mobeus Equity Partners LLP in the first instance, on 020 7024 7600 or by e-mail to vcts@mobeusequity.co.uk.

## Net asset value per share

The Company's NAV per share as at 31 March 2015 was 115.45 pence. The Company announces its unaudited NAV on a quarterly basis.

## Dividends

Shareholders who wish to have 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 Registrars, Capita Asset Services at the address given at the end of this section.

**Shareholders are encouraged to ensure that the Registrars maintain up-to-date details for them and to check whether they have received and banked all dividends payable to them. This is particularly important if they have recently moved house or changed their bank. We are aware that a number of dividends remain unclaimed by shareholders and whilst we will endeavour to contact you if this is the case we cannot quarantee that we will be able to do so if the Registrars do not have an up-to-date telephone number and/or email address for you. You can update your contact details and view any unclaimed dividend payments via the** capitashareportal.com.

## Financial calendar

| | |
|---|---|
| Early June 2015 | Annual Report for the year ended 31 March 2015 to be circulated to Shareholders |
| 10 September 2015 | Annual General Meeting |
| November 2015 | Announcement of Half-Yearly Results and circulation of Half-Yearly Report for the six months ending 30 September 2015 to Shareholders |
| First quarter 2016 | Shareholder Event |
| 31 March 2016 | Year-end |

## Selling your shares

The Company's Shares are listed on the London Stock Exchange and as such they can be sold in the same way as any other quoted company through a stockbroker. **If you are considering selling your shares, you are strongly advised to contact the Company's stockbroker, Panmure Gordon, by telephoning 020 7886 2716/7 before agreeing a price with your stockbroker**. Shareholders are also advised to discuss their individual tax position with their financial adviser before deciding to sell their shares.

## Boiler room fraud and unsolicited communications to shareholders

We are aware that from time to time our shareholders have received unsolicited telephone calls and/or mail which purport to come from the Company or to be authorised by the VCT.

MIG 2 VCT is obliged by law to make its share register publicly available on request and, as a result, it is possible that shareholder address information could be used by third parties to obtain telephone numbers and/or send unsolicited mail. However, the Company has the right to challenge such a request when the reason given for the request is not acceptable to us and we will be taking advantage of these provisions as appropriate.

The practice of Boiler Room fraud has been highlighted by the FCA and the Institute of Chartered Secretaries and Administrators ("ICSA"), and their advice includes:

– Make sure you get the correct name of the person and organisation.
– Check that they are properly authorised by the FCA before getting involved by visiting www.fca.gov.uk/register/ and contacting the firm using the details on the register.
– Report the matter to the FCA either by calling its consumer helpline 0800 111 6768 or visiting consumer.enquiries@fca.org.uk or visit the consumer pages at their website which includes comprehensive information in the section on investment scams including a reporting form.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme ("FSCS"). The FSCS can be contacted via their website at www.fcsa.org.uk.

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the FCA Website www.fca.org.uk/consumers/scams.

For further information, shareholders may also contact Mobeus, the Company Secretary, Tel : 020 7024 7600.

# VCT Tax Benefits

## Taxation benefits

VCTs provide investors with an attractive method of investing in small to medium-sized unquoted (including AIM listed) trading companies in the UK that would otherwise be difficult to invest in directly. The VCT is itself exempt from paying corporation tax on its chargeable gains. VCTs also offer substantial tax benefits to private investors.

## Personal taxation benefits

The tax reliefs set out below are available to individuals aged 18 or over who subscribe for ordinary shares. Whilst there is no specific limit in the amount of an individual's acquisitions of shares in a VCT, each of the following tax reliefs will only be given to the extent that the individual's total acquisitions of shares in VCTs in any tax year do not exceed the specified limit, currently £200,000 (see below).

Tax reliefs currently available to VCT investors:

(1) **Relief from income tax on investments**
An investor subscribing for new ordinary shares in a VCT is entitled to claim income tax relief on amounts subscribed up to a maximum of £200,000 (increased from £100,000 in respect of shares issued on or after 6 April 2004) in any tax year. To obtain relief, an investor must subscribe in his/her own name and not through a nominee, although the shares may subsequently be transferred into the name of a nominee. The relief is given at 30% of the amount subscribed provided that the relief is limited to the amount which reduces the investor's income tax liability to nil. Investments used as security for, or financed by, a loan may not qualify for relief depending on the circumstances. The income tax relief for investments in new VCT shares was decreased from 40% to 30% in relation to VCT shares issued on or after 6 April 2006.

(2) **Capital gains tax reinvestment relief**
The ability to defer capital gains by reinvesting the gains in a VCT, where the VCT shares are issued in the two year period beginning twelve months before the gain arises, has been abolished in respect of shares issued on or after 6 April 2004. However, gains which were deferred by subscribing for VCT shares issued before 6 April 2004 remain deferred while the investor continues to hold those VCT shares.

(3) **Dividend relief**
An investor who acquires VCT shares within the specified limit (currently £200,000 per annum) will not be liable to income tax on dividends paid on those shares.

(4) **Relief from capital gains tax on disposal**
A disposal by an investor of ordinary shares in a VCT will not be subject to UK capital gains tax.

(5) **Purchases in the market**
An individual purchaser of existing VCT shares in the market will be entitled to claim dividend relief but not relief from income tax on investment.

(6) **Withdrawal of relief**
Relief from income tax on subscription for shares in a VCT is withdrawn if the shares are disposed of (other than between spouses) within five years of issue (within three years of issue for shares purchased prior to 6 April 2006) or if the VCT loses its approval within this period.

Please note that a new rule came into force last year to prevent "round tripping". The rule is that: income tax relief for a subscription for shares in a VCT is restricted, if within six months of the subscription, whether before or after, the investor sells shares in the VCT. The amount of subscription qualifying for relief is reduced by the proceeds received on the disposal. Shares subscribed for under a dividend reinvestment scheme are not affected by this rule.

**The above is only an outline of the tax reliefs available under current legislation. Investors are recommended to consult an independent professional adviser as to the taxation consequences of investing in a VCT.**

# Performance Data at 31 March 2015

The two former 'C' and Ordinary classes of shares were merged on 10 September 2010, and the 'C' share class redesignated as Ordinary Shares. The following tables show, for all investors in the former share classes, how their investments have performed since they were originally allotted shares in each fundraising.

Total return data, which includes cumulative dividends paid to date, is shown on both a share price and NAV basis as at 31 March 2015. The NAV basis enables Shareholders to evaluate more clearly the performance of the Investment Adviser, as it reflects the underlying value of the portfolio at the reporting date. This is the most widely used measure of performance in the VCT sector.

## Ordinary Share Fund

**Share price as at 31 March 2015** **104.50 p[1]**
**NAV per share as at 31 March 2015** **115.45 p**

| Allotment date(s) | Allotment price (p) | Net allotment price[2] (p) | Cumulative dividends paid per share[4] (p) | Total return per share to shareholders since allotment (Share price basis) (p) | (NAV basis) (p) | % increase since 31 March 2014 (NAV basis) % |
|---|---|---|---|---|---|---|
| **Funds raised 2005/06** | | | | | | |
| Between 5 January 2006 and 5 April 2006 | 100.00 | **60.00** | 42.00 | **146.50** | **157.45** | **9.5%** |
| **Funds raised 2008/09** | | | | | | |
| Between 3 April 2009 and 5 May 2009 | 92.39 | **64.67** | 38.00 | **142.50** | **153.45** | **9.8%** |
| **Funds raised 2013/14** | | | | | | |
| 09/01/2014 | 117.92[5] | **82.54** | 24.00 | **128.50** | **139.45** | **10.9%** |
| 11/02/2014 | 118.22[5] | **82.75** | 24.00 | **128.50** | **139.45** | **10.9%** |
| 31/03/2014 | 119.28[5] | **83.49** | 19.00 | **123.50** | **134.45** | **11.4%** |
| 03/04/2014 | 119.82[5] | **83.87** | 19.00 | **123.50** | **134.45** | **11.4%** |
| 04/04/2014 | 119.08[5] | **83.36** | 19.00 | **123.50** | **134.45** | **11.4%** |
| 06/06/2014 | 118.66[5] | **83.06** | 19.00 | **123.50** | **134.45** | **11.4%** |
| **Funds raised 2014/15** | | | | | | |
| 14/01/2015 | 118.44[5] | **82.91** | 5.00 | **109.50** | **120.45** | – |
| 17/02/2015 | 124.35[5] | **87.05** | 5.00 | **109.50** | **120.45** | – |
| 10/03/2015 | 120.18[5] | **84.13** | – | **104.50** | **115.45** | – |

## Former Ordinary Share Fund

**Share price as at 31 March 2015** **86.42 p**
**NAV per share as at 31 March 2015** **95.48 p**

Shareholders in the former Ordinary Share Fund received 0.827 shares in the Company for each former Ordinary share that they held on 10 September 2010, when the two share classes merged. Both the share price and the NAV per share shown above have been adjusted using this merger ratio.

| Allotment date(s) | Allotment price (p) | Net allotment price[2] (p) | Cumulative dividends paid per share[4] (p) | Total return per share to shareholders since allotment (Share price basis) (p) | (NAV basis) (p) | % increase since 31 March 2014 (NAV basis) % |
|---|---|---|---|---|---|---|
| **Funds raised 2000/01[3]** | | | | | | |
| Between 30 May 2000 and 11 December 2000 | 100.00 | **80.00** | 56.58 | **143.00** | **152.06** | **8.1%** |

[1] - Source: London Stock Exchange (mid-price basis), based on the last NAV announced of 115.52p at 31 December 2014.

[2] - Net allotment price is the allotment price less applicable income tax relief. The tax relief was 20% up to 5 April 2004, 40% from 6 April 2004 to 5 April 2006, and 30% thereafter.

[3] - Investors in this fundraising may also have enhanced returns if they had also deferred capital gains tax liabilities.

[4] - For derivation, see table on following page.

[5] - Average effective offer price.

# Cumulative dividends paid

| Date paid | Funds raised 2000/01 (p) | Funds raised 2005/06 (p) | Funds raised 2008/09 (p) | Funds raised 2013/14 (p) | Funds raised 2014/15 (p) |
|---|---|---|---|---|---|
| 20 March 2015 | 4.14[1] | 5.00 | 5.00 | 5.00 | 5.00 |
| 20 October 2014 | 11.58[1] | 14.00 | 14.00 | 14.00 | |
| 21 March 2014 | 4.14[1] | 5.00 | 5.00 | 5.00 | |
| 19 April 2013 | 3.31[1] | 4.00 | 4.00 | | |
| 20 April 2012 | 3.31[1] | 4.00 | 4.00 | | |
| 20 April 2011 | 3.31[1] | 4.00 | 4.00 | | |
| **10 September 2010 – Merger of Ordinary Share Fund and C Share Fund** | | | | | |
| 13 August 2010 | – | 1.00 | 1.00 | | |
| 19 September 2009 | – | 1.00 | 1.00 | | |
| 23 July 2008 | 6.00 | 2.50 | | | |
| 19 September 2007 | 6.00 | 1.50 | | | |
| 8 February 2006 | 6.00 | | | | |
| 20 October 2005 | 6.00 | | | | |
| 24 September 2003 | 0.51 | | | | |
| 16 September 2002 | 1.35 | | | | |
| 10 September 2001 | 0.93 | | | | |
| **Total dividends paid** | **56.58** | **42.00** | **38.00** | **24.00** | **5.00** |

[1] - The dividends paid after the merger of the share classes on 10 September 2010 to former Ordinary Share Fund shareholders have been restated to reflect the merger conversion ratio of approximately 0.827.

## Company History

The Company was launched in May 2000 as **Matrix e-Ventures Fund VCT**. In October 2001 the Company changed its name to **Matrix Venture Fund VCT**. In September 2005, the Company adopted a broader investment strategy, to invest in established, profitable and cash generative business across any sector. It also changed its name to **Matrix Income & Growth 2 VCT plc**. In June 2012 the Company changed its name to **Mobeus Income & Growth 2 VCT** plc to reflect the Investment Adviser's change of name.

# Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Mobeus Income & Growth 2 VCT plc ("the Company") will be held at 12.00 noon on Thursday 10 September 2015 at 33 St James's Square, London SW1Y 4JS for the purposes of considering, and if thought fit, passing the following resolutions of which Resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

1. To receive and adopt the annual report and accounts of the Company for the year ended 31 March 2015 ("Annual Report"), together with the auditor's report thereon.

2. To approve the directors' annual remuneration report as set out in the Annual Report of the Company for the year ended 31 March 2015.

3. To re-appoint BDO LLP of 55 Baker Street, London W1U 7EU as auditor to the Company until the conclusion of the next annual general meeting.

4. To authorise the directors to determine the remuneration of BDO LLP as auditor of the Company.

5. To re-elect Nigel Melville as a director of the Company.

6. To re-elect Kenneth Vere Nicoll as a director of the Company.

7. To re-elect Sally Duckworth as a director of the Company.

8. That, in substitution for any existing authorities, the directors of the Company be and hereby are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 ("the Act"), to exercise all the powers of the Company to allot ordinary shares of 1 penny each in the Company ("Shares") and to grant rights to subscribe for, or to convert any security into, Shares ("Rights") up to an aggregate nominal value of £136,469, provided that the authority conferred by this resolution shall expire (unless renewed, varied or revoked by the Company in general meeting) on the date falling fifteen months after the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2016 but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require Shares to be allotted or Rights to be granted after such expiry and the directors of the Company shall be entitled to allot Shares or grant Rights pursuant to any such offer or agreements as if the authority conferred by this resolution had not expired.

9. That, subject to the passing of resolution 8 set out in this notice and in substitution for any existing authorities, the directors of the Company be and hereby are empowered in accordance with sections 570 and 573 of the Act to allot or make offers or agreements to allot equity securities (as defined in section 560(1) of the Act) for cash, pursuant to the authority conferred upon them by resolution 8 set out in this notice, or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such sale or allotment, provided that the power conferred by this resolution shall be limited to:

   (i) the allotment and issue of equity securities with an aggregate nominal value of up to but not exceeding £100,000 in connection with offer(s) for subscription; and

   (ii) the allotment, otherwise than pursuant to sub-paragraph (i) above, of equity securities with an aggregate nominal value of up to, but not exceeding, 10 per cent. of the issued share capital of the Company from time to time

   in each case where the proceeds may be used, in whole or part, to purchase the Company's Shares in the market and provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the date falling fifteen months after the passing of this resolution or, if earlier, on the conclusion of the annual general meeting to be held in 2016, except that the Company may, before the expiry of this authority, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred by this resolution had not expired.

10. That, in substitution for any existing authorities, the Company be and hereby is authorised pursuant to and in accordance with section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of its own Shares provided that:

   (i) the aggregate number of shares which may be purchased shall not exceed 5,466,648 or, if lower, such number of Shares (rounded down to the nearest whole share) as shall equal 14.99 per cent. of the Shares in issue at the date of passing this resolution;

   (ii) the minimum price which may be paid for a Share is 1 penny (the nominal value thereof);

(iii) the maximum price which may be paid for a Share (excluding expenses) shall be the higher of (a) an amount equal to five per cent above the average of the middle market quotations for a Share in the Company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is contracted to be purchased and (b) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC 2273/2003);

(iv) the authority conferred by this resolution shall expire (unless renewed, varied or revoked by the Company in general meeting) on the date falling fifteen months after the passing of this resolution or, if earlier, on the conclusion of the annual general meeting of the Company to be held in 2016; and

(v) the Company may make a contract or contracts to purchase its own Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own Shares in pursuance of any such contract.

BY ORDER OF THE BOARD OF DIRECTORS

**Mobeus Equity Partners LLP**
Company Secretary
Dated: 15 June 2015

*Registered Office*
30 Haymarket
London SW1Y 4EX

**Notes:**

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulation 2001, entitlement to attend and vote at the meeting (and the number of votes that may be cast thereat) will be determined by reference to the Register of Members of the Company at the close of business on the day which is two days before the day of the meeting or of the adjourned meeting. Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the form of proxy are set out in the notes on the form of proxy. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the chairman) and give your instructions directly to them.

3. You may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you may copy the proxy form, clearly stating on each copy the shares to which the proxy relates, or alternatively contact the Company's registrars, Capita Asset Services, on +44 (0) 371 664 0324 (lines are open between 9.00 am and 5.30 pm Monday to Friday, calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales. To request additional copies of the proxy form. Different charges may apply to calls from mobile telephones and call may be recorded and randomly monitored for security and training purposes. For legal reasons Capita Asset Services will be unable to give advice on the merits of the proposals or provide financial, legal, tax or investment advice. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned together in the same envelope.

4. The statement of the rights of members in relation to the appointment of proxies in paragraphs 2 and 3 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.

5. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

6. If you have been nominated to receive general shareholder communications directly from the Company, it is important to remember that your main contact in terms of your investment remains as it was (so the registered shareholder, or perhaps custodian or broker, who administers the investment on your behalf). Therefore any changes or queries relating to your personal details and holding (including any administration thereof) must continue to be directed to your existing contact at your investment adviser or custodian. The Company cannot guarantee dealing with matters that are directed to us in error. The only exception to this is where the Company, in exercising one of its powers under the Act, writes to you directly for a response.

7. A personal reply paid form of proxy is enclosed with this document. To be valid, it should be lodged, together with the power of attorney or other authority, if any, under which it is signed or a notarilly certified or office copy thereof, at the offices of the Company's registrar, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received not later than 12 noon on 8 September 2015 or 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.

# Notice of the Annual General Meeting

8. If you prefer, you may return the proxy form to the Registrar in an envelope addressed to FREEPOST CAPITA, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

9. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. 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, 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 system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

10. Appointment of a proxy or CREST proxy instruction will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so. You can only appoint a proxy using the procedures set out in these notes and the notes to the form of proxy.

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

12. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on 8 September 2015. 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 Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

13. As at 15 June 2015 (being the last business day prior to the publication of this notice), the Company's issued share capital consisted of 36,468,632 Ordinary Shares of 1p, carrying one vote each. Therefore, the total voting rights in the Company as at 15 June 2015 were 36,468,632.

14. The Register of Directors' Interests and Directors' appointment letters will be available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) until the end of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting. The Directors do not have any service contracts with the Company.

15. If a corporate shareholder has appointed a corporate representative, the corporate representative will have the same powers as the corporation could exercise if it were an individual member of the Company. If more than one authorised person seeks to exercise a power in respect of the same shares, if they purport to exercise the power in the same way, the power is treated as exercised; if they do not purport to exercise the power in the same way, the power is treated as not exercised.

16. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) 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 AGM; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor no later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act to publish on a website.

17. At the meeting shareholders have the right to ask questions relating to the business of the meeting and the Company is obliged under section 319A of the Act to answer such questions, unless; to do so would interfere unduly with the preparation of the meeting or would involve the disclosure of confidential information, if the information has been given on the Company's website, www.mig2vct.co.uk in the form of an answer to a question, or if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

18. Further information, including the information required by section 311A of the Act, regarding the meeting is available on the Company's website, www.mig2vct.co.uk.

# Corporate Information

### Directors
Nigel Melville (Chairman)
Sally Duckworth
Adam Kingdon
Kenneth Vere Nicoll

### Secretary
Mobeus Equity Partners LLP
30 Haymarket
London
SW1Y 4EX

### Company's Registered Office and Head Office
30 Haymarket
London
SW1Y 4EX
Tel: 020 7024 7600

### Company Registration Number:
03946235

### Investment Adviser, Promoter and Administrator
Mobeus Equity Partners LLP
30 Haymarket
London
SW1Y 4EX
www.mobeusequity.co.uk

### Website
www.mig2vct.co.uk

### Email
vcts@mobeusequity.co.uk

### Independent Auditor
BDO LLP
55 Baker Street
London
W1U 7EU

### Receiving Agent
The City Partnership (UK) Limited
Thistle House
21 Thistle Street
Edinburgh
EH2 1DF

### Sponsor
Howard Kennedy Corporate Services LLP
No.1 London Bridge
London
SE1 9BG

### Solicitors
Shakespeare Martineau LLP
No 1 Colmore Square
Birmingham
B4 6AA

### Registrar
Capita Asset Services
The Registry
34 Beckham Road
Beckham
Kent
BR3 4TU

Tel: +44 (0) 371 664 0324 (calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00am and 5.30pm, Monday to Friday excluding public holidays in England and Wales.

### Corporate Brokers
Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF

### VCT Status Adviser
Robertson Hare LLP
4-6 Staple Inn
High Holborn
London
WC1V 7QH

### Bankers
Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

Mobeus Equity Partners LLP
30 Haymarket
London SW1Y 4EX

020 7024 7600
**www.mig2vct.co.uk**