Amati VCT 2 plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 31 January 2014

Amati Global Investors

Finely crafted investments

CONTENTS

Highlights

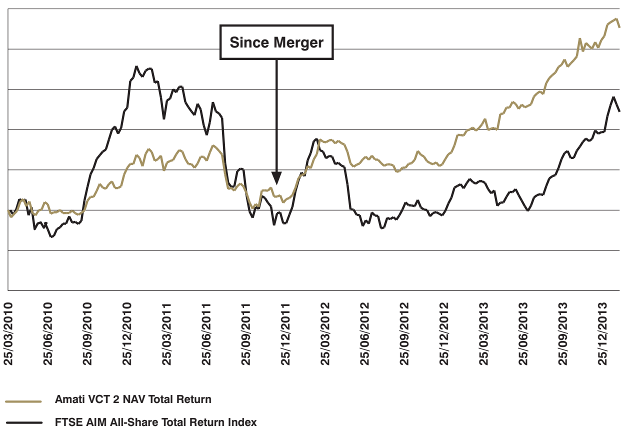
- NAV Total Return for the year was 22.6% which compares to 18.0% for the FTSE AIM All-Share Total Return Index.
- Proposed final dividend of 4p per share bringing the total declared in respect of the year to 6.75p per share which is 5.5% of year end NAV.
- The Joint Offer for Subscription launched on 6 February 2013 together with Amati VCT closed in January 2014 after raising a total of £2.5m for the Company.
- New Joint Top Up Offer for Subscription opened in February 2014 to raise up to £7m with dividend reinvestment facility.
- £4.7m invested in qualifying holdings during the year.

Table of Investor returns to 31 January 2014

From	Date	NAV Total Return with dividends reinvested	FTSE AIM All-Share Total Return index
Relaunch as Amati VCT 2 following merger	9 November 2011*	38.5%	19.6%
Appointment of Amati as Manager of Amati VCT 2, which was known as ViCTory VCT at the time	25 March 2010	45.3%	24.4%

*Date of the share capital reconstruction when the NAV was rebased to approximately 100p per share.

Amati VCT 2 NAV Total Return and FTSE AIM All-Share Total Return Index from change of Manager on 25 March 2010 to 31 January 2014



See next page for graph of performance since launch.

Key data

	31/01/14	31/01/13
Net Asset Value ("NAV")	£34.5m	£29.1m
Shares in issue	27,893,328	27,289,574
NAV per share	123.7p	106.7p
Bid price	118.0p	95.8p
Mid price	118.3p	105.8p
Market capitalisation	£33.0m	£28.9m
Share price discount to NAV	4.4%	0.8%
NAV Total Return for the year (assuming re-invested dividends)	22.6%	8.8%
FTSE AIM All-Share Total Return Index over one year	18.0%	-2.8%
Ongoing charges*	2.7%	2.7%
Dividends proposed/declared in respect of the year	6.75p	6.0p

* *Ongoing charges calculated in accordance with the Association of Investment Companies' ("AIC's") guidance.*

Dividends declared and recommended since launch

Year ended 31 January	Total dividends per share* p	Cumulative dividends per share* p
2002	4.03	4.03
2003	1.90	5.93
2004	0.59	6.52
2005	1.18	7.70
2006	0.00	7.70
2007	4.74	12.44
2008	9.48	21.92
2009	1.18	23.10
2010	0.00	23.10
2011	4.74	27.84
2012	5.50	33.34
2013	6.00	39.34
2014	6.75	46.09

* *Adjusted for the share reconstruction on 9 November 2011 when the net asset value was rebased to approximately 100p per share. The cumulative dividends adjusted to reflect the amount paid per original Singer & Friedlander AIM 3 VCT share are 17.77p.*

Corporate objective

The objective of Amati VCT 2 plc (the "Company") is to provide shareholders with an attractive and competitive investment return from a portfolio of companies whose shares are primarily traded on the Alternative Investment Market ("AIM"). The Manager's continuing objective is to manage the current portfolio so as to maximise returns for investors for the qualifying period and beyond.

Historic performance

Amati VCT 2 NAV Total Return assuming re-invested dividends and FTSE AIM All-Share Total Return Index:

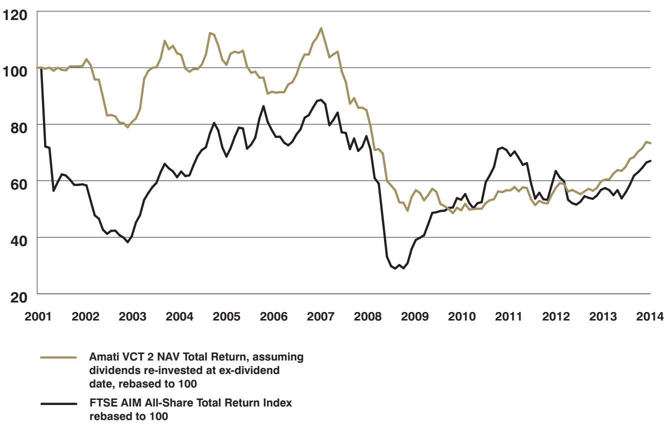


Table of Historic Returns from launch to 31 January 2014 attributable to shares issued by VCTs which have been merged into Amati VCT 2

	Launch date	Merger date	NAV Total Return with dividends re-invested	FTSE AIM All-Share Total Return Index
Singer & Friedlander AIM 3 VCT ('C' shares)	4 April 2005	8 December 2005	-19.6%	-13.6%
Invesco Perpetual AiM VCT	30 July 2004	8 November 2011	-28.9%	8.7%
Amati VCT 2 (originally Singer & Friedlander AIM 3 VCT*)	29 January 2001	n/a	-26.7%	-33.0%
Singer & Friedlander AIM 2 VCT	29 February 2000	22 February 2006	-43.8%	-64.5%
Singer & Friedlander AIM VCT	28 September 1998	22 February 2006	-61.7%	15.0%

* *Singer & Friedlander AIM 3 VCT changed its name to ViCTory VCT on 22 February 2006 and to Amati VCT 2 on 8 November 2011.*

Overview

In the second full year since the re-launch of the Company following the merger in November 2011 the work done to reposition the portfolio has been well rewarded, with the net asset value continuing to climb steadily throughout the year. The AIM market as a whole was muted in the first half, but rose strongly thereafter. In the context of this overall rejuvenation of AIM, it is no surprise that the number of fund raisings by qualifying companies picked up substantially during the year. Amongst these were a number of offerings judged to be of good quality by the Manager, many of which have already contributed positively to performance. During the year the Company invested a further £4.7m in 17 new qualifying investments, of which 13 were new holdings and 4 additions to existing positions.

Investment Performance and Dividend

During the year to 31 January 2014 the net asset value total return of the Company was 22.6%. This compares to a rise of 18.0% for the FTSE AIM All-Share Total Return Index.

The dividend policy of the Company is to pay interim and final dividends totaling between five and six percent of year-end net asset value, subject to the availability of liquidity and sufficient distributable reserves. At 31 January 2014 the net asset value was 123.7p. In line with this policy the Board is recommending a final dividend of 4p per share, to be paid on 25 July 2014 to shareholders on the register on 4 July 2014. The interim dividend paid on 25 October 2013 was 2.75p per share.

Other Corporate Developments

The Prospectus share offer launched in February 2013 jointly with Amati VCT closed in January 2014 having raised a total of £7.1m, of which £2.5m was for Amati VCT 2 shares. In February 2014 the Company launched a joint Top Up share offer with Amati VCT plc. As at 15 April 2014 subscriptions of £2.7m have been received, of which £1.4m was for Amati VCT 2 shares. The offer will close in respect of the 2014/15 tax year on 30 January 2015.

During the year HMRC conducted a consultation on enhanced share buybacks, expressing concern that these could lead to additional tax reliefs being given to VCT investors where no new investments in qualifying companies were being made by the VCT itself. Following the launch of this consultation the Company suspended the enhanced share buyback facility which accompanied the Prospectus share offer current at the time. The consultation has resulted in new guidance being published in December, and new legislation being announced in the Budget of 2014. From 6 April 2014 onwards VCT investors who sell shares in a particular VCT will not be able to claim tax relief on shares bought up to that value in the same VCT at any point from six months before the sale to six months after it.

In addition share buybacks may not be linked in any way to share purchases in a VCT. As a result the Company will not be offering an enhanced share buyback facility in the future. However, the Board has asked the Manager to maintain an active approach to managing the level of discount to net asset value at which the shares trade, and this has resulted in the discount of the bid price to the NAV narrowing over the past year.

The strong performance during the year has meant that the Manager became entitled to earn a performance fee at the year end, and in addition a substantial fee was provided for at the year end, which may be reduced to the extent that the year-end NAV per share total return declines during the current period to 31 July 2014. As previously announced, during March the Manager approached the Board offering to end all future performance fees after 31 July 2014. Given that the calculation always requires any performance to be sustained for six months, this effectively means that there will be no new performance fee charges arising on any positive performance after 31 January 2014. The Board has accepted this offer.

The Manager's offer to end performance fees reflects a desire, shared by the Board, for the Amati VCTs to represent two of the most compelling and straightforward VCT offerings available to investors.

Outlook

After a strong year for AIM companies, boosted by the inclusion of AIM stocks within ISAs, inevitably questions arise about how much longer these market conditions can last. However, the key driver of the success of the portfolio will be the business performance of the companies in which we have invested, and here we continue to see many promising prospects, which provide grounds for optimism.

Annual General Meeting

The AGM will be held at 10.15am on Thursday 26 June 2014 at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London, EC2Y 8DT. The AGM will be followed by an Investor Event which will include presentations by the Manager and investee companies, and a buffet lunch will be served. I do hope that as many of you as possible will be able to attend. Please RSVP to rachel.lederf@amatiglobal.com if you would like to attend.

Julian Avery
Chairman

16 April 2014

If you have any questions relating to your investment please contact the company secretary on 0131 243 7215, or send queries to a dedicated email enquiry service at vct-enquiries@amatiglobal.com. Amati maintains an informative website for the Company – www.amatiglobal.com - on which monthly investment updates, performance information, and past company reports can be found.

Market review

2013 saw another strong year for UK equities. It was also the year when the feel-good factor prevalent in the stock market began to seep into the real economy, with the UK being one of the few bright spots on an otherwise subdued global picture. With the notable exceptions of the US and Japan, most other global economies remained challenged, with slow growth across the Eurozone, and emerging markets faltering in the face of capital flows being diverted back towards developed markets and a Chinese economic slowdown. These factors focused investor attention on companies with a high propensity towards domestic earnings in the UK, largely those within the small and mid cap indices. Particularly noteworthy was the strength of sectors exposed to the UK consumer, such as housebuilding, leisure and retail. Thanks to the ongoing pump-priming of the economy through quantitative easing and other measures, the availability of consumer debt has been almost fully restored, and alongside household windfalls from insurance mis-selling claims, this has been feeding through to increased spending. In combination with rising business confidence, reducing unemployment, continued low interest rates, and the easing of the Eurozone crisis, this has produced a heady cocktail for stock markets, putting pressure on those investors sitting with large amounts of cash to put their money to work in more productive ways, and mostly generating strong returns for those willing to take the risks of backing businesses through equity ownership.

The strength of the UK stock market finally brought an end to the dearth of new companies seeking a listing and 2013 will be remembered as the year when Initial Public Offerings ("IPOs") resumed. For the most part, these IPOs were well received by investors and share prices performed strongly in the after-market. It was also a year when AIM as a whole underwent something of a renaissance, although the AIM indices remain well below their pre-financial-crisis highs.

Performance

The NAV Total Return for the year under review was 22.6%. This compares to a return of 18.0% for the FTSE AIM All-Share Total Return Index ("the AIM Index"). Whilst the VCT posted positive gains in both the first and second half of the year under review, the AIM Index posted all of its gains in the latter half of the year, aided by legislative changes such as the eligibility of AIM shares for Individual Savings Accounts ("ISAs"), which came into effect in August 2013.

The most substantial contribution to performance came from **Accesso Technology Group** ("Accesso", formerly Lo-Q), which posted a share price gain of 70% over the year. Accesso took its new name from the acquisition of Accesso LLC, which completed in December 2012, and added ticketing software to the group's theme park offering. The share price gain came against a backdrop of continued contract wins with theme parks for its queuing technology, the launch of a smart-phone queuing solution, and a strong contribution from the 'Passport' ticketing software. These catalysts, alongside good weather during the key theme park summer trading season, led the company to announce that profits would be above market expectations. Accesso recently completed its second acquisition, adding Siriusware Inc, a point of sale software business. This acquisition adds more product and service options for the group to take to its customers as well as opening up new markets, such as ski resorts, where Siriusware is well represented.

Prezzo made the second largest contribution to performance, with a share price rise of 89%. The contemporary Italian restaurant chain traded from 181 sites at its last reporting date, as well as 33 sites operating under its Chimichanga Mexican-themed brand. The 'affordable treat' niche of the leisure sector has proved popular with customers throughout the downturn and Prezzo has continued to roll-out its two brands at an impressive rate. The same dynamic also helped **Tasty**, a smaller group of 27 restaurants operating exclusively in London, generate a share price gain of 69% over the period.

Anpario continued its strong gains with a share price rise of 102% in the period under review as its niche in natural animal feed additives, progressive dividend growth and strong balance sheet chimed well with investors. **MyCelx Technologies** also delivered an impressive performance, with the shares up 121% in the period, despite a set-back with 'unforeseen end-user delays' causing revenues to slip and a downgrade of 2013 results. Order momentum since appears to have recovered as MyCelx's disruptive water filtration technology continues to displace traditional methods. **Judges Scientific**, the listed acquisition vehicle for scientific instrumentation businesses, posted strong gains following robust organic growth and the completion of the company's largest acquisition to date. **Quixant** was added to the portfolio (see Transactions section below) following its Initial Public Offering ("IPO") and delivered a share price gain of 135% to the period end.

The best performer in the non-qualifying portfolio was **Blinkx**, which uses its proprietary search engine technology to identify the contents of online video clips to allow the placement of relevant advertisements. The stock ended the period up 200% following a sequence of earnings upgrades. We took profits in this holding during the period.

The principal detractor from performance was **IDOX** which, after several years of impressive share price growth and earnings upgrades, succumbed to profit warnings blamed on delays in signing contracts in its Engineering Information Management (EIM) software division. These downgrades translated into a 38% share price fall over the period under review. As one of the largest positions in the portfolio, this was disappointing but evidence of a resumption in new contract wins is beginning to appear. IDOX remains a high quality software business and is now trading on a low earnings multiple relative to its peers. **Cupid** fell heavily after unproven allegations of dubious practices in the operation of it match-making websites. The markets took fright at these accusations and the stock fell heavily. We have now exited this position. **Deltex Medical Group** disappointed when the strong news flow relating to the use of its medical device failed to translate into sales and fell 33% over the year. **Zytronic** fell after missing forecasts, a perennial hazard of a business with limited order visibility, and we sold this position. The final sale price was 43% below the share price at the beginning of the year.

In the non-qualifying portfolio, the share price of **Asian Citrus Holdings** continued to slide as a sequence of inclement weather, persistent rainfall and crop disease had a detrimental effect on orange crop yields. With no sign of much needed changes to corporate governance being made in this company, and with the two UK non-executive directors having left the board, we took the decision to exit, and this stock is no longer in the portfolio. The final sale price was 45% below the share price at the beginning of the year.

Transactions

Qualifying portfolio

The year under review was notable for a strong resurgence of VCT qualifying companies raising money on AIM. We liked the quality of many of the deals, and were often active in negotiating the pricing of them. Overall we participated in 17 transactions. Within these transactions were 8 IPOs; 6 placings of stock in companies already listed on AIM ("Placings"); and 3 pre-IPO investments in private companies that we anticipate will float on AIM within a reasonable time frame. The first of these, **Frontier Developments** ("Frontier"), floated less than two months after our investment completed.

The first two IPOs that we took part in during the year floated on the same day in May. One was **AB Dynamics**, a company specialising in the design of suspension measurement machines and driver robots for the automotive industry. This equipment is crucial during the testing and proving processes for new car models and AB Dynamics supplies many of the world's leading automotive manufacturers. The other was **Quixant**, which also had a very successful stock market debut. The company provides the technology 'engines' (i.e. computers) for gaming machines. They have an entrenched position with one of the leading gaming machine manufacturers in this highly regulated market, and we believe that their technical design leadership in this area will bring further customers to use their products. A third IPO in May in which we participated was **Outsourcery**, a provider of cloud-delivered telephony and software applications although we have subsequently reduced this holding. The summer yielded the IPO of **Keywords Studies** ("Keywords"), which provides the foremost video gaming companies with localisation and translation services. Such services adapt computer games for new geographic markets and are increasingly being outsourced, providing a growing market backdrop for Keywords. **EU Supply** was the VCT's fifth IPO. EU Supply's software products ensure that local authorities comply with legislation on tendering. Recent ratification of new EU directives suggest that the market for electronic tendering in the public sector should experience rapid growth over the next few years, providing a strong background for EU Supply's offering. **Eclectic Bar Group** came to market to raise capital to roll-out its successful late-night bar brands into affluent UK university towns. The funding will be used to increase the portfolio from 20 to 30 sites by the end of 2017. We were attracted to profit margins and revenue per unit which are amongst the highest in the leisure industry. **Kalibrate Technologies** ("Kalibrate") specialises in pricing and planning software and data for the retail fuel industry. Kalibrate's products facilitate the identification of optimal sites for new petrol stations as well as calculating appropriate fuel pricing for existing fuel stations based on parameters such as competitor pricing and locations, and current wholesale rates. **MartinCo**, a residential property lettings franchisor, was the VCT's final IPO. MartinCo has built a successful brand and now comprises 157 franchise owners trading at 188 offices, with a further one trading office which is currently group owned. The group's franchisees manage approximately 30,000 properties on behalf of private clients. All of the IPOs described above finished the period at prices ahead of their respective placing prices.

The first placing in which the VCT invested was **Fox Marble Holdings**, an existing holding, which raised funds to replace an undrawn convertible loan note facility and to provide additional working capital for the development of its marble quarrying business in Kosovo. **Belvoir Lettings**, another existing holding, also raised further funds to continue to support its residential lettings franchise acquisition program. **Microsaic Systems** raised further funds to execute its organic revenue growth plans aimed at generating sales of its miniaturised mass spectrometry system. We also made a small addition to **Paragon Entertainment**, which raised additional working capital to support the growth of its order book. We participated in a further two placings in companies which became new holdings for the VCT. The first was **Solid State**, which designs, manufactures and supplies components to the electronics industry. This company raised new capital to finance the acquisition of a similar business. The electronic component market is fragmented creating an opportunity for those willing to consolidate and acquire scale through acquisitions. The second was **Water Intelligence**, a US leak detection franchise business, a fundraising in which the Amati funds were the only participants.

The decision to participate in three pre-IPO deals was driven by the quality of opportunities presented and the belief that the companies were capable of achieving listed status in the short term. The first transaction was **Frontier**, which has since floated on AIM. Frontier develops video games for third parties and is working on the re-launch of its own property - Elite:Dangerous – a game first launched to huge critical acclaim by the founder of Frontier in 1984. The VCT invested in Frontier predominantly through a convertible loan instrument, which converted into equity at a 15% discount to the IPO price. The VCT's investment in **Rosslyn Analytics** ("Rosslyn") was completed in November and we expect an IPO in 2014. Rosslyn provides a cloud-based platform for data management and analytics. Rosslyn's technology solves part of the problem of 'big data', where increasingly vast quantities of data must be cleansed, sorted and presented in a meaningful format to users. The final pre-IPO investment was a small holding in **Rated People**, the online exchange matching tradesmen with household building and maintenance jobs. Qualified tradesmen are eligible to subscribe to the site in order to view 'leads'; if they then decide to quote for a lead, they must pay an additional fee to the site. Rated People has established itself as the leading provider of this service in the UK and we expect an IPO later in 2014.

The abundance of new deal activity has resulted in some restructuring of the existing qualifying portfolio. Some core positions were trimmed for portfolio management reasons, such as **Accesso**, **Anpario**, **MyCelx Technologies** and **Tasty** – these positions remain core holdings of the VCT but were reduced after very strong runs to re-balance the portfolio. Other positions were sold outright, such as **UBC Media Group** and **Inditherm** – both had become small investments and we felt there was little to be gained from holding the positions and more to be gained from reducing the list of companies in the portfolio and freeing up some cash. **Synergy Health** was sold as it approached the second anniversary of its move from AIM to the Full List of the London Stock Exchange. This had been a very successful investment for the VCT but this deadline changed the status of the stock from qualifying to non-qualifying and we preferred to take positions in other stocks in this area of the portfolio. We sold **Sinclair IS Pharma** for the same reason. Other positions exited included **Cupid**, **Brainjuicer Group**, **Zytronic**, **Futura Medical**, **Vianet Group** and **Fulcrum Utility Services**.

Non-qualifying portfolio

We added several non-qualifying positions during the year. Several of these additions have a strong, UK consumer-focus, such as **Restaurant Group**, the eating out business best known for its chain of Frankie & Bennie's eateries. Others were added to capitalise on the resurgent UK property market, for example **Rightmove**, the online property portal; **Foxtons Group**, the well-known London estate agency; and **Crest Nicholson Holdings**, the housebuilder that returned to the stock market in 2013. **Elementis** was added to provide exposure to the strong US market, where this speciality chemicals group has a significant presence. **AVEVA Group**, another FTSE 250 stock, designs software for the power plant and marine industries, and benefits from long-term recurring revenues with its clients. Other new positions included **Moneysupermarket.com Group**, **Bank of Georgia Holdings**, **Genel Energy** and **Esure Group**, all of which were subsequently exited profitably during the year as cash was required for qualifying investments.

Besides the activity already mentioned above, the principal exits from the non-qualifying portfolio were: **Devro**, the manufacturer of collagen sausage skins; **Entertainment One**, the film distribution and TV production business; and **Dignity**, the UK funeral director.

Outlook

After two years of strong gains from UK small and mid cap companies, many are asking whether there are further gains to be made. The financial markets have been propelled by quantitative easing and low interest rates for five years, which represents an extreme response to an extreme crisis. Such a sustained level of financial stimulus takes us into uncharted waters. It is true that some areas of the market are beginning to look expensive, although AIM tends to march to a different beat to the UK small and mid cap indices, given its weighting of resource stocks and tail of illiquid, tiny companies. That said, the AIM 50 Index (the 50 largest companies by market capitalisation listed on AIM) has also performed very well and has become highly rated. Much of the share price appreciation of UK companies in 2013 (and 2012) has not been accompanied by earnings growth, a fact we have been concerned about for some time. This must eventually change and 2014 could be the year when it does, which, if it happens, would give support to today's valuations. M&A activity has also been very subdued since 2007 and may prove a strong catalyst for share price gains in smaller companies in 2014 as corporate confidence continues to increase and shareholders put pressure on companies with strong balance sheets to put cash to use. The path of interest rates will play a significant part in stock market returns over the next twelve months. Both Janet Yellen, the new Chair of the Federal Reserve, and Mark Carney, the Governor of the Bank of England, have made dovish noises on this front and the expectation is that any rate rises will be gradual and limited.

On balance we remain positive on the outlook for the UK stock market, albeit that there is already a greater level of optimism priced in. We spend most of our time not looking at the macro-economic picture, but rather at the specific situations of the companies held in the portfolio, and those in which we are considering making new investments. From this perspective we are seeing plenty of positive developments and interesting opportunities which underpin our broadly positive stance, and we welcome the growing interest from investors in the micro-cap end of the AIM market which has brought increased liquidity to the stocks in the portfolio.

Dr Paul Jourdan, Douglas Lawson and David Stevenson
Amati Global Investors

16 April 2014

Dr Paul Jourdan
Founder and CEO
Amati Global Investors

Douglas Lawson
Founder and Director
Amati Global Investors

David Stevenson
Fund Manager

Dr Paul Jourdan

Dr Paul Jourdan is an award-winning fund manager, with a strong track record in small cap investment. He co-founded Amati Global Investors following the management buyout of Noble Fund Managers from Noble Group in January 2010. He had joined Noble Fund Managers in 2007 as Head of Quoted Equities. He moved to Edinburgh in 1998, joining Stewart Ivory to work on UK, emerging market and global equities. In 2000, Stewart Ivory was taken over by Colonial First State (subsequently First State Investments). From September 2000, Paul became manager of what is now TB Amati UK Smaller Companies Fund, winning several awards, more recently the Growth Company Investors “Small Cap Fund of the Year Award 2011”, the “Lipper Best UK Small and Mid-Cap Fund 2012” and “FE Alpha Manager 2013”. In November 2004 he was appointed Head of UK Equities at First State. In early 2005 he launched the First State Investments AIM VCT plc, which is now called Amati VCT plc.

Prior to 1998 Paul worked as a professional violinist, including a four year period with the City of Birmingham Symphony Orchestra. He currently serves as a Director of Sistema Scotland, and also as a Governor of the Royal Conservatoire of Scotland. He also serves as a director of Fox Marble Holdings plc, in which Amati VCT 2 holds an investment.

Douglas Lawson

Douglas Lawson co-founded Amati Global Investors following the management buyout of Noble Fund Managers from Noble Group in January 2010. Prior to this he worked in corporate finance and private equity, initially as an associate focusing on middle market M&A at British Linen Advisers, and latterly as an investment manager in the private equity team at Noble. Douglas has co-managed the TB Amati UK Smaller Companies Fund since 2009, winning the Growth Company Investors “Small Cap Fund of the Year Award 2011”, as well as the “Lipper Best UK Small and Mid-Cap Fund 2012.” He has also been co-manager of Amati VCT since 2009 and Amati VCT 2 since the investment management contract moved to Amati Global Investors in 2010. Douglas started his career at Ernst & Young in London, where he qualified as a Chartered Accountant in 2002. He serves as a director of Amati Global Investors and Polyhedra Group plc, in which Amati VCT 2 holds an investment.

David Stevenson

David Stevenson joined Amati Global Investors in February 2012. Prior to this he was a partner with investment boutique Cartesian Capital, which managed a range of retail and institutional UK equity funds in long only and long/short strategies. David co-founded Cartesian Capital in 2005, and saw growth in client assets to a peak of £600m. Previously he was assistant director at SVM, where he also managed equity products including the UK Opportunities small/midcap fund which ranked top decile amongst peers for the five year period from inception to late 2005. Before that, David worked in private equity with Dunedin, a subsidiary of the Bank of Scotland, and started his career at KPMG where he qualified as a Chartered Accountant, latterly specialising in corporate finance.

INVESTMENT PORTFOLIO

as at 31 January 2014

FTSE Sector	Number of shares	Book cost+ £	Valuation £	Fund %	% of shares in issue	Original AVCT2 book cost at 8 November 2011‡ £
Amerisur Resources plc @	697,000	297	355	1.0	0.1	-
Egdon Resources plc *@	1,265,500	158	354	1.0	1.0	-
MyCelx Technologies Corporation *@	194,470	425	934	2.7	3.2	175
Oil & Gas		**880**	**1,643**	**4.7**		**175**
Elementis plc @	194,000	479	496	1.4	0.0	-
Fox Marble Holdings plc 8% Convertible Loan Note *#@	508,300	508	525	1.5	48.0**	-
Fox Marble Holdings plc *@	2,809,999	543	576	1.7	2.3	-
Basic materials		**1,530**	**1,597**	**4.6**		**-**
AB Dynamics plc *@	345,872	298	512	1.5	2.1	-
Bglobal plc *@	1,134,117	291	77	0.2	1.1	175
Cohort plc *	275,667	234	557	1.6	0.7	364
Judges Scientific plc *@	27,471	165	611	1.8	0.5	-
Keywords Studios plc *@	354,467	436	507	1.5	0.9	-
Microsaic Systems plc †@	1,333,000	490	620	1.8	2.5	-
Polyhedra Group plc *#@	1,032,711	310	248	0.7	1.2	-
Polyhedra Group plc 8% Convertible Unsecured Loan Stock *#@	953,272	953	906	2.6	23.8**	-
Sabien Technology Group plc †@	1,551,426	375	481	1.4	4.9	416
SKIL Ports & Logistics Limited @	158,778	316	92	0.3	0.4	-
Solid State plc *@	100,017	242	285	0.8	1.2	-
Sportsweb.com *#	58,688	352	317	0.9	11.4	-
Synectics plc †	136,688	342	772	2.2	0.8	-
Universe Group plc †@	12,500,970	288	844	2.5	5.9	-
Water Intelligence plc *@	395,084	170	197	0.6	3.7	-
Industrials		**5,262**	**7,026**	**20.4**		**955**
Asian Citrus Holdings Limited @	1,312,063	577	203	0.6	0.1	235
China Food Company plc 12.5% Convertible Loan Note #@	624	624	809	2.3	14.1**	-
Crest Nicholson Holdings plc @	194,383	631	712	2.0	0.1	-
Frontier Developments plc †@	565,182	602	854	2.5	1.8	-
Sorbic International plc 0% Convertible Loan Stock #@	276	276	299	0.9	10.8**	-
Consumer goods		**2,710**	**2,877**	**8.3**		**235**

FTSE Sector	Number of shares	Book cost+ £	Valuation £	Fund %	% of shares in issue	Original AVCT2 book cost at 8 November 2011‡ £
Allergy Therapeutics plc *	265,455	29	24	0.1	0.1	194
Anpario plc *@	463,576	408	1,173	3.4	2.3	432
Deltex Medical Group plc *@	2,931,000	735	388	1.1	1.7	-
Tristel plc *@	876,402	438	421	1.2	2.2	145
Health care		**1,610**	**2,006**	**5.8**		**771**
Cello Group plc *	225,000	258	191	0.6	0.3	-
Conexion Media Group plc *	1,080,883	184	3	-	1.4	-
Dods (Group) plc *	2,000,000	596	60	0.2	0.6	-
Ebiquity plc *	345,500	729	401	1.1	0.6	-
Eclectic Bar Group plc *@	235,120	376	385	1.1	1.8	-
Expansys plc *@	775,000	450	4	-	0.1	-
Fuse8 plc #	20,999	210	-	-	0.2	-
Music Festivals plc *#@	59,527	39	-	-	0.4	-
Music Festivals plc 8% Convertible Loan Note 2016 *#@	340,000	340	-	-	11.3**	-
Prezzo plc †	1,342,500	151	1,967	5.7	0.6	-
Rated People Limited *#@	832	93	93	0.3	0.5	-
Rightmove plc @	17,200	323	436	1.3	0.0	-
Tasty plc *	538,000	373	592	1.7	1.0	-
TLA Worldwide plc †@	2,877,000	576	1,036	3.0	3.3	-
Consumer services		**4,698**	**5,168**	**15.0**		**-**
Antenova Limited *#	2,181,435	-	-	-	3.0	525
Antenova Limited A Preference Shares *#	1,275,166	100	13	-	3.1	100
Telecommunications		**100**	**13**	**-**		**625**
Belvoir Lettings plc *@	386,209	344	688	2.0	1.6	-
Brooks Macdonald Group plc †@	90,100	1,153	1,320	3.8	0.7	127
Brookwell Limited Redeemable Preference Shares #	205,371	137	66	0.2	3.8	160
London Capital Group Holdings plc @	430,652	372	133	0.4	0.8	132
MartinCo plc *@	315,250	315	422	1.2	1.4	-
Paragon Entertainment Limited †@	8,431,300	322	358	1.1	4.5	-
Financials		**2,643**	**2,987**	**8.7**		**419**

FTSE Sector	Number of shares	Book cost+ £	Valuation £	Fund %	% of shares in issue	Original AVCT2 book cost at 8 November 2011‡ £
Accesso Technology Group plc *@	273,000	273	1,877	5.5	1.4	-
AVEVA Group plc @	12,656	317	272	0.8	0.0	-
Celoxica Holdings plc *#	771,250	-	-	-	0.3	198
EU Supply plc *@	1,678,639	379	441	1.3	2.9	-
GB Group plc *@	538,323	222	762	2.2	0.5	88
Ideagen plc †@	2,152,300	409	700	2.0	1.8	-
IDOX plc †@	3,611,951	272	1,282	3.7	1.0	-
Kalibrate Technologies plc *@	443,094	350	412	1.2	1.3	-
Netcall plc *	961,562	173	558	1.6	0.8	268
Outsourcery plc *@	122,808	135	144	0.4	0.4	-
Quixant plc †@	835,117	385	902	2.6	1.3	-
Rosslyn Analytics Limited *#@	9,639	30	30	0.1	0.3	-
Rosslyn Analytics Limited Preference Shares *#@	86,741	265	265	0.8	4.2	-
Software Radio Technology plc *@	1,900,000	579	380	1.1	1.6	713
Ubisense Group plc *@	314,577	544	761	2.2	1.4	145
Technology		**4,333**	**8,786**	**25.5**		**1,412**
Total investments		**23,766**	**32,103**	**93.0**		**4,592**
Net current assets			**2,412**	**7.0**		
Net assets		**23,766**	**34,515**	**100**		

* *Qualifying holdings.*

† *Part qualifying holdings.*

\# *Unquoted holdings.*

** *These figures represent percentage of loan stock held.*

@ *These investments are also held by other funds managed by Amati.*

\+ *This column shows the book cost to the Company, either as a result of market trades and events, or asset acquisition.*

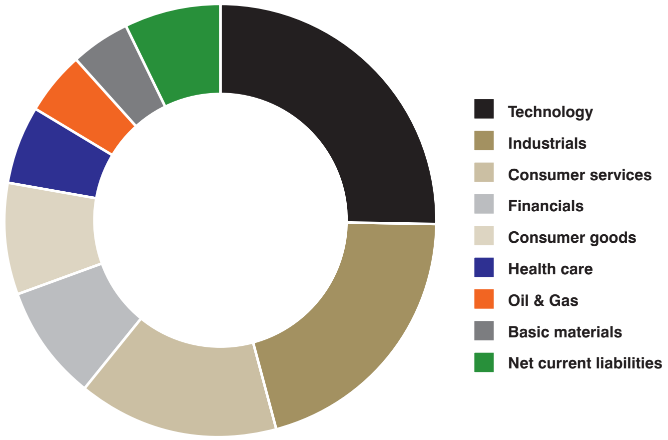
‡ *This column shows the book cost of the AVCT2 investments which formed part of the asset acquisition. These investments were transferred to the Company at fair value on the date of the asset acquisition. The total book cost at 8 November 2011 per the table above does not agree to the total book cost of AVCT2 investments at 8 November 2011 due to sales since this date.*

All holdings are in ordinary shares unless otherwise stated.

As at the year end, the percentage of the Company's portfolio held in qualifying holdings for the purposes of Section 274 of the Income and Corporation Taxes Act 2007 is 88.48%.

Fund Exposure by Sector as at 31 January 2014

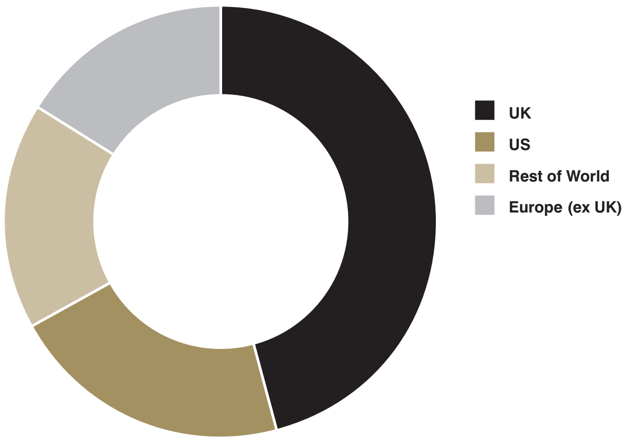
FTSE Sector	Fund %
Technology	25.5
Industrials	20.4
Consumer services	15.0
Financials	8.7
Consumer goods	8.3
Health care	5.8
Oil & Gas	4.7
Basic materials	4.6
Telecommunications	-
Net current assets	7.0
	100.0



Geographical Exposure as at 31 January 2014

Region	Fund %
UK	46
US	21
Rest of World	17
Europe ex UK	16

Source: Amati Global Investors. Geographical exposure calculated by reference to the last published annual report and the weighted average market capitalisation of each portfolio constituent.



Prezzo plc

Sector	Consumer services		
Market capitalisation	£341.4m	52 weeks to 30 December 2012	£ million
Cost	£151,000	Profit before tax	17.3
Valuation	£1,967,000	Profit after tax	12.9
Valuation basis	SETS closing	Net assets	91.7
Income recognised in year	£4,000		

Prezzo is a branded restaurant operator in the UK operating under the Prezzo and Chimichanga brands. Prezzo opened 30 new restaurants in 2013, including their first restaurant in Northern Ireland, and have openings in the pipeline in Windsor, Leeds, Oxford and Wembley. At the period end Prezzo had 222 restaurants in its estate, including 33 trading under the Chimichanga brand, which have a theme based on the increasingly popular Tex-Mex cuisine.

Accesso Technology Group plc

Sector	Technology		
Market capitalisation	£138.9m	14 months ended 31 December 2013	£ million
Cost	£273,000	Profit before tax	2.2
Valuation	£1,877,000	Profit after tax	2.0
Valuation basis	SETS closing	Net assets	23.9
Income recognised in year	£nil		

Accesso, formerly Lo-Q, designs, installs and operates systems that reduce queuing times for visitors to theme parks. The first installation was in 2001 in the Six Flags Over Georgia park near Atlanta and since that the time the company's products have been used by more than 9 million guests. The virtual queuing system, which is now available in more than 400 visitor attractions worldwide, can be operated through a mobile phone, a handheld device or wristband which is rented at the park. The revenue share agreement offers a very attractive and low risk incremental revenue stream to the park operator. The acquisitions of Accesso, a leading ticketing and e-commerce group, and Siriusware, a leading North American provider of ticketing and point-of-sale (POS) technology, has enhanced Accesso's product offering and consolidated its market-leading position.

Brooks Macdonald Group plc

Sector	Financials		
Market capitalisation	£195.6m	Year to 30 June 2013	£ million
Cost	£1,153,000	Profit before tax	10.4
Valuation	£1,320,000	Profit before tax	8.0
Valuation basis	SETS closing	Net assets	57.6
Income recognised in year	£20,000		

Brooks Macdonald Group plc is an AIM quoted, integrated, wealth management group. The group consists of four principal companies: Brooks Macdonald Asset Management Limited, a discretionary asset management business; Brooks Macdonald Funds Limited, a fund management business; Brooks Macdonald Financial Consulting Limited, a financial advisory and employee benefits consultancy; and Braemar Estates (Residential) Limited, an estate management company. Assets under management have grown to £5.68 billion, and the changing regulatory landscape following the coming into force of the Retail Distribution Review ("RDR") has presented further opportunities for growth.

IDOX plc

Sector	Technology		
Market capitalisation	£125.3m	Year to 31 October 2013	£ million
Cost	£272,000	Profit before tax	7.5
Valuation	£1,282,000	Profit after tax	8.4
Valuation basis	SETS closing	Net assets	44.7
Income recognised in year	£25,000		

IDOX is a leading provider of software and services to the UK public sector. It is the leading applications provider to local government for core functions relating to land, people and property, for example planning systems and election management software. Over 90% of UK local authorities are customers of IDOX. The group's products enable local authorities to manage information, knowledge, documents and content. The acquisition of McLaren Software, which provides engineering document management applications to the oil and gas, mining, utilities, pharmaceuticals and transport sectors, was one of a series of acquisitions aimed at diversifying away from the company's reliance on the UK public sector.

Anpario plc

Sector	Health care		
Market capitalisation	£50.2m	Year to 31 December 2012	£ million
Cost	£408,000	Profit before tax	1.5
Valuation	£1,173,000	Profit after tax	2.1
Valuation basis	Bid price	Net assets	17.9
Income recognised in year	£18,000		

Anpario plc is a leader in the manufacturing and marketing of high performance natural feed additives for global agricultural and aquaculture markets with products which improve the health and output of animals, thereby increasing profits for the farmer. The company is positioned to benefit from the trends in growth of the world's population, the increasing demand for meat and fish protein in developing countries and the tightening of global regulation which favours more natural feed additive solutions. Anpario's strong global brands, which include Kiotechagil, Meriden and Optivite, trade in over 70 countries using a combination of distributors, joint ventures and wholly owned subsidiaries backed up by a centralised manufacturing and research and development centre based in the United Kingdom. Anpario has recently established a distribution centre in the US, following on from its recent entry into China and Brazil, three markets which together account for approximately half the company's addressable market.

Polyhedra Group plc

Sector	Industrials		
Market capitalisation	£20.2m	Year to 31 December 2012	€ million
Cost	£1,263,000	Profit before tax	1.8
Valuation	£1,154,000	Profit after tax	0.7
Valuation basis	Earnings/Revenue multiple (ord shares) Discounted cash flow/ Black Scholes (convertible loan)	Net assets	1.3
Income recognised in year	£76,000	Polyhedra Group is an unquoted company. The shares have attached to them full voting, dividend distribution and capital distribution (including on winding up) rights; they do not confer any rights of redemption. Amati VCT 2 holds 1.21% of the voting rights of Polyhedra Group.	

Polyhedra is an unquoted company which provides the pharmaceutical supply chain with the collection, audit and safe disposal of expired and unused products. Polyhedra operates in an increasingly regulated industry with high barriers to entry, and is the only company in Europe fully to comply with EU directives on the secure disposal of pharmaceutical products. The company intends to join the AIM market in due course, with a view to rolling out its service offering in the UK and Germany.

Fox Marble Holdings plc

Sector	Basic materials		
Market capitalisation	£25.3m	Year to 31 December 2012	€ million
Cost	£1,051,000	Profit before tax	7.4
Valuation	£1,101,000	Profit after tax	7.4
Valuation basis	Bid-price (ord shares) Discounted cash flow/ Black Scholes (convertible loan)	Net assets	6.7
Income recognised in year	£25,000		

Fox Marble is a decorative stone extraction company operating in Kosovo, with headquarters in the United Kingdom. The company has extraction licenses for five high quality marble quarries, in an area with world-class marble reserves which are largely unexploited. The company has made rapid progress to production and recently signed its first deal with a major UK marble manufacturer.

TLA Worldwide plc

Sector	Consumer services		
Market capitalisation	£31.6m	Year to 31 December 2012	$ million
Cost	£576,000	Loss before tax	(0.08)
Valuation	£1,036,000	Loss after tax	(1.2)
Valuation basis	Bid price	Net assets	34.5
Income recognised in year	£17,000		

TLA Worldwide is an athlete representation and sports marketing business, whose primary focus is the sport of baseball. Its baseball division is the largest player agency by client number, negotiating more than $2bn in player contracts since 2004. The company has begun to diversify into other sports such as golf, as well as related areas such as talent marketing, broadcasting and coaching. A subsidiary company, The Legacy Agency, has recently announced a strategic partnership with a major video programming and technology platform.

MyCelx Technologies Corporation

Sector	Oil & Gas		
Market capitalisation	£28.9m	Year to 31 December 2012	$ million
Cost	£425,000	Profit before tax	1.6
Valuation	£934,000	Profit after tax	2.0
Valuation basis	Bid price	Net assets	16.5
Income recognised in year	£nil		

MyCelx is a clean water technology provider to the global Oil & Gas industry. The company's revolutionary technology for the removal of oil from waste water is rapidly gaining traction throughout the industry. MyCelx has recently signed up two major international oil companies for the delivery of its clean water technology in the Gulf of Mexico, and has announced a push into emerging markets in order to diversify its customer base.

Quixant plc

Sector	Technology		
Market capitalisation	£69.8m	Year to 31 December 2013	$ million
Cost	£385,000	Profit before tax	6.0
Valuation	£902,000	Profit after tax	4.8
Valuation basis	Bid price	Net assets	15.5
Income recognised in year	£nil		

Quixant designs and manufactures PC based computer systems for the global gaming industry. Based in the UK, Quixant currently has subsidiary companies in Italy, USA and Taiwan with customers in every region of the world. The company has its own manufacturing facility in Taiwan, and has recently moved into mass production with two major gaming machine manufacturers. Quixant has made rapid progress since listing, and has revealed plans for a new operational facility in Las Vegas, as the company seeks to gain market share and embed relationships with major suppliers.

BOARD OF DIRECTORS

Julian Avery

Julian Avery is Chairman of the Company. He is a solicitor and was chief executive of Wellington Underwriting plc until September 2004. He was a non-executive director of Aspen Insurance Holdings Limited until May 2007 and chairman of Equity Insurance Group until its acquisition by the Australian insurance group, IAG in January 2007. He was a non-executive director of Warner Estate Holdings plc and Charles Taylor plc. He was also previously a senior adviser to Fenchurch Advisory Partners. He is a Trustee of the Butler Trust and president of St. Michael's Hospice, Hastings.

Mike Killingley

Mike Killingley is a non-executive director of AIM-quoted Falkland Islands Holdings plc. He was a senior partner with KPMG, chartered accountants, from 1988 until retiring from the firm in 1998; he is a former non-executive chairman of a number of AIM and listed companies, including Beale plc, Southern Vectis plc, Conder Environmental plc and Advanced Technology (UK) plc. He is Chairman of the audit committee of the Company.

Christopher Macdonald

Christopher Macdonald is chief executive officer of Brooks Macdonald Group plc, a private client fund management group. He is also a director of Brooks Macdonald Asset Management Limited, Brooks Macdonald Financial Consulting Limited, Brooks Macdonald Asset Management (Tunbridge Wells) Limited, Brooks Macdonald Funds Limited, Brooks Macdonald Nominees Limited, Brooks Macdonald Asset Management (International) Limited, Brooks Macdonald Retirement Services (International) Limited and Braemar Group Limited. The Company holds shares in Brooks Macdonald Group plc.

Christopher Moorsom

Christopher Moorsom is non-executive chairman of the Bath Building Society and a director of the Royal Welsh College of Music and Drama. He was managing director of Albert E Sharp, joint managing director of Gerrard and was chairman of Gerrard Investment Funds. He was a director of Weston Area NHS Trust, Northern Races Limited and Bath Racecourse Limited. He is a member of the Securities Institute. He is the senior independent Director of the Company.

This report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The directors consider that the Annual Report and Accounts of the Company for the year ended 31 January 2014 as a whole is fair, balanced and understandable and provides the information necessary for the members of the Company to assess the Company's performance, business model and strategy.

Investment Policy

Investment Objective

The Investment objectives of the Company are to generate tax free capital gains and income on investors' funds through investment primarily in AIM-traded companies whilst mitigating risk appropriately within the framework of the structural requirements imposed on all VCTs.

Risk Diversification

Portfolio risk will be mitigated through appropriate diversification of holdings within the relevant portfolio. As at 31 January 2014 the Company held investments in 62 companies.

The Manager may use exchanged-traded or over-the-counter derivatives with a view to reducing overall market risk in the portfolio as a whole. The Manager shall only seek to hedge a limited amount of market risk and shall always be covered by the assets of the portfolio. The use of derivatives is on a strictly controlled basis only and is part of a total risk mitigation exercise, not a separate investment policy. The Company's overriding investment principle in relation to the use of derivatives is to seek to reduce any potential capital loss in the equity portions of the Qualifying and Non-Qualifying Investment portfolios in a falling market. The Manager has not used exchange-traded or over-the-counter derivatives at this stage.

Asset Allocation

The Manager intends that by the date from which all funds raised are required to meet the VCT qualifying rules, the Company's investment profile (as defined by the valuation methodology set out in sections 278-9 of the Income Tax Act 2007 in which assets are valued on the basis of last purchase price rather than by market price) will be approximately:

(i) Between 70% and 85% in Qualifying Investments, whether equity or non-equity securities in (a) companies traded on AIM or on ISDX, or (b) companies likely to seek a quotation on AIM or on ISDX within a 24 month period, or (c) likely to be the subject of a trade sale within a 24 month period.

(ii) Between 0% and 30% in Non-Qualifying investments in small and mid-sized companies where such companies are either (a) quoted in London (b) likely to seek a quotation in London within a 24 month period, or (c) likely to be the subject of a trade sale within a 24 month period. Investments may also include derivative instruments.

(iii) Between 0% and 30% in cash or cash equivalents (including money market funds) or government or investment grade bonds.

Consistent with the conditions for eligibility as an investment company under the Companies Act 2006, any holdings by the Company in shares or other securities in a company will not represent more than 15% by value of the Company's investments.

While Qualifying investments are being sourced, the assets of the portfolio which are not in Qualifying companies will be actively invested by the Manager in a combination of the above (always ensuring that no more than 15% of the Company's funds are invested in any one entity).

As described above, the Manager will also have the facility to seek to reduce market risk from the equity portfolio held by the Company through the use of derivatives. The derivatives used will either be traded on an over-the-counter market or will be exchange-traded. They will be in highly liquid markets bearing a reasonable level of correlation to the FTSE AIM All-Share Total Return index, ensuring that the value is normally transparent, and enabling positions to be closed rapidly when needed.

Strategy for Achieving Objectives

Qualifying Investments Strategy

The construction of the portfolio of Qualifying Investments is driven by the availability of suitable opportunities. The Manager may co-invest in companies in which other funds managed by Amati Global Investors invest, in accordance with the Qualifying Investments strategy.

The ability of VCTs to mitigate market risk is restricted by the requirement to maintain a minimum of 70% of their assets (as defined by the methodology set out in sections 278-9 of the

Income Tax Act 2007) in Qualifying Investments after an initial three year period. A VCT s ability to invest and mitigate risk is therefore restricted in three important respects:

(i) Qualifying Companies are likely to be small, liable to be highly illiquid and their prospects can improve or deteriorate very rapidly. The liquidity risk itself cannot be adequately diversified, because larger, more liquid stocks cannot be purchased in the qualifying portion of a VCT s portfolio.

(ii) Qualifying Investments have to be purchased as opportunities arise. This is a long-term process, the pace of which cannot be determined solely by the Manager.

(iii) VCTs are less able to respond readily to the changing risk environment in the market as a whole because the ability to sell Qualifying Investments may be dependent on the opportunity to replace that holding with another Qualifying Investment, and an appropriate opportunity may not be available at the right time.

The Company seeks to address these issues through the Non-Qualifying Investment strategy set out in section below. In addition the Company benefits from an existing Qualifying Investment portfolio of some maturity, in which, due to strong performance, the most successful companies have tended to become the largest holdings. This mature portfolio serves to mitigate the risks for subscribers for New Ordinary Shares, as new Qualifying Investments purchased with the proceeds of subscriptions will sit alongside well established ones.

Non-Qualifying Investments Strategy

While Qualifying Investments are being sourced, the assets of the portfolio which are not in Qualifying Companies will be actively invested by the Manager in a combination of the following (though ensuring that no more than 15% of the Company's funds are invested in any one entity):

(i) direct equity and non-equity investments in small and mid-sized companies quoted in London, or likely to seek a quotation in London or to be sold within a 24 month period;

(ii) government or investment grade corporate bonds; and

(iii) money market funds.

The Manager seeks to adjust the non-qualifying portfolio to reflect the nature of Qualifying Investments as they are purchased, such that the portfolio remains well balanced and diversified. If the Manager holds a negative outlook on the equity markets then funds may be invested in cash or bonds as outlined above, and, in addition, the Manager may seek to reduce market risk in the equity portfolio with the use of suitable derivative instruments. Asset allocation between these categories will remain flexible.

In relation to the use of derivatives, the directors and the Manager believe that their use under the controlled and prudent parameters which have been put in place in relation to the Company helps to reduce the total risk facing investors in relation to their investments. The Company has made limited use of derivative investments to date.

The use of derivatives will not prevent the Company from losing money overall in a falling market. However, insofar as derivatives are used, the Manager's objective will be partially to reduce losses and also to provide cash for investment at moments when the market is weak. The Company will only enter into such transactions for the purposes of efficient portfolio management in line with conventional practice.

Strict internal guidelines on the use of derivatives have been put in place by the Manager. Additionally, such derivatives as are used are required to offer both good liquidity and, in the Manager's opinion, reasonable correlation to the AIM market. Your attention is drawn to the risk factors relating to the use of derivatives set out on page 19 of this document.

The Manager is under no obligation to use any one of these approaches and provides no guarantee that market risk management will be in place during a falling market. The use of any or all of these instruments will reflect the Manager's view of the market risks which may be taken at any time.

Results and Dividends

The total profit on ordinary activities after taxation for the year attributable to shareholders was £6,347,000, equivalent to a return of 23.02p per share (31 January 2013: £2,109,000, equivalent to a return of 7.63p per share).

The Board is recommending a final dividend of 4p per share for the year ended 31 January 2014 payable on 25 July 2014 to shareholders on the register at 4 July 2014. An interim dividend of 2.75p per share was paid on 25 October 2013 to shareholders on the register at 4 October 2013.

A review of the Company's performance during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on page 3 and in the Fund Manager's Review on pages 7 and 8. The main trends and factors likely to affect the future development, performance and position of the business are included in the Outlook section of the Chairman's Statement on page 3.

A graph of the performance of the growth in the Company's net asset value Total Return (assuming dividends re-invested) compared with the FTSE AIM All-Share Total Return Index is shown on page 1.

Key Performance Indicators

The Board monitors on a regular basis a number of key performance indicators which are typical for VCTs, the main ones being:

- Net asset value and total return to shareholders (the aggregate of net asset value and cumulative dividends paid to shareholders, assuming dividends re-invested at ex-dividend date). See graphs on pages 1 and 2.
- Dividend distributions. See table of investor returns on page 2.
- Share price. See key data on page 1.
- Ongoing charges ratio. See key data on page 1.
- Compliance with HMRC VCT regulations to maintain the Company's VCT status. See page 22.

Management Agreement

Amati Global Investors was appointed as Manager to the Company on 22 March 2010. Under an Investment Management and Administration Agreement ("IMA") dated 22 March 2010 the Manager has agreed to manage the investments and other assets of the Company on a discretionary basis subject to the overall policy of the directors. The Company will pay to the Manager under the terms of the IMA a fee of 1.75% of the net asset value of the Company in arrears. Annual running costs are capped at 3.5% of the Company's net assets, any excess being met by the Manager by way of a reduction in future management fees. The annual running costs include the directors' and Manager's fees, professional fees and the costs incurred by the Company in the ordinary course of its business (but excluding any commissions paid by the Company in relation to any offers for subscription, any performance fee payable to the Manager, irrecoverable VAT and exceptional costs, including winding-up costs). A performance fee of £152,000 is payable to the Manager in respect of the year ended 31 January 2014 (31 January 2013: £nil). Please refer to Note 3 on page 45 for details of the performance fee arrangement. A provision of £1,271,000 has been made for a performance fee which will become payable on 31 July 2014 if returns are sustained in this six month period. Following agreement between the Manager and the Company, as explained in the Chairman's Statement, there will be no new performance fee charges, beyond those already provided for in these accounts, arising on any positive performance after 31 January 2014.

Administration Arrangements

Under the IMA, the Manager has also agreed to provide secretarial and administration services for the Company. The Manager has engaged The City Partnership (UK) Limited to act as company secretary and Capita Asset Services to act as fund administrator. The Company has agreed to pay to the Manager a fee of £65,000 (subject to an annual increase in line with the retail prices index) annually in arrears in respect of these services and the fee for the year ended 31 January 2014 is £72,789.

The appointment of the Manager as investment manager and/or administrator and company secretary may be terminated on one year's notice.

Fund Manager's Engagement

The Board regularly appraises the performance and effectiveness of the managerial and secretarial arrangements of the Company. As part of this process, the Board will consider the arrangements for the provision of investment management and other services to the Company on an ongoing basis and a formal review is conducted annually. In the opinion of the Board, the continuing appointment of the Manager, on the terms agreed, is in the interests of the shareholders. The directors are satisfied that the Manager will continue to manage the Company in a way which will enable the Company to achieve its objectives.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers ("PwC") to advise it on compliance with VCT requirements. PwC reviews new investment opportunities, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager but reports directly to the Board.

Borrowing Policy

The Company may, within the limits set out in its Articles of Association, utilise borrowings to provide flexibility in its investment and dividend policies. The Articles allow the Company to borrow up to an amount equal to its adjusted capital and reserves (as defined in the Articles). The Board will restrict the borrowings of the Company to an amount which will not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to 25% of the adjusted capital and reserves. The Company currently does not have any borrowings.

VCT Regulation

The Company's investment policy is designed to ensure that it meets the requirements of HM Revenue & Customs to qualify and to maintain approval as a VCT. HM Revenue & Customs VCT regulations state that the Company must, within three years of raising funds, maintain at least 70% by VCT value of its investments in shares or securities comprised in qualifying holdings, of which at least 70% by VCT value must be ordinary shares which carry no preferential rights (for funds raised prior to April 2011 at least 30% by VCT value must be in ordinary shares which carry no preferential rights). In addition, it may not invest more than 15% of its investments in a single company and it must have at least 10% by VCT value of its total investments in any qualifying company in qualifying shares approved by HM Revenue & Customs. To be classed as a VCT qualifying holding, companies in which investments are made must have no more than £15 million of gross assets at the time of investment (or £8 million if the funds being invested were raised after 5 April 2006) and £16m after investment (or £8m after 5 April 2006), they must also be carrying on a qualifying trade and satisfy a number of other tests.

Prior to making any qualifying investment the Manager requests HMRC VCT clearance letters from investee companies and, takes advice from PwC to ensure the documentation regarding the investment does not contravene the qualifying status of the investment. The Manager monitors compliance with VCT qualifying rules on a day to day basis through a combination of automated and manual compliance checks in place within the business. PwC also review the portfolio bi-annually to ensure the Manager has complied with regulations and have reported to the Board that the VCT has met the necessary requirements during the year.

The Finance Bill 2014 was published on 27 March 2014 and includes the following proposed amendments to scheme rules for VCTs:

- to exclude companies benefiting from Renewables Obligation Certificates and/or the Renewable Heat Incentive scheme with effect from Royal Assent of Finance Bill 2014;
- to allow investors to subscribe for VCT shares via nominees with effect from Royal Assent of Finance Bill 2014;
- to exclude investments in VCTs that are conditionally linked in any way to a share buyback, or that have been made within 6 months of a disposal of shares in the same VCT, from qualifying for new tax relief with effect from 6 April 2014;
- to prevent VCTs from returning capital that does not relate to profits on investments within 3 years of the end of the accounting period in which shares were issued to investors. This will take effect in respect of shares issued on or after 6 April 2014;
- to amend the VCT legislation to ensure that from 6 April 2014, notwithstanding the general time limits for making assessments to recover tax, HMRC can withdraw tax relief if VCT shares are disposed of within 5 years of acquisition;

In addition to the changes above the government is concerned about the growing use of contrived structures to allow investment in low-risk activities that benefit from income guarantees via government subsidies and will therefore explore a more general change to exclude investment into these activities, consulting with stakeholders. The government is also interested in exploring options for venture capital reliefs to apply where investments are in the form of convertible loans, and will be considering this as part of a wider consultation and evidence gathering exercise over summer 2014.

The Finance Bill 2012 was published on 29 March 2012, and received Royal Assent on 17 July 2012. The amendments have effect in relation to shares issued on or after 6 April 2012. The amendments increased:

- the employee limit to fewer than 250;
- the threshold of gross assets to no more than £15m before investment and £16m immediately thereafter (or £8m if the funds being invested were received after 5 April 2006); and
- the maximum annual amount that can be invested in any 12 month period in an individual company in aggregate from EIS, VCT and other state aided risk capital measures to £5m.

The Finance Bill provided that the maximum annual investment limit would be applied to all vintages of VCT funds.

Principal Risks and Uncertainties

The Board considers that the Company faces the following major risks and uncertainties:

Investment Risk

A substantial portion of the Company's investments are in small AIM traded companies as well as some unquoted companies. By their nature these investments involve a higher degree of risk than investment in larger fully listed companies. These companies tend to have limited product lines and niche markets. They can be reliant on a few key individuals. They can be dependent on securing further financing. In addition, the liquidity of these shares can be low and the share prices volatile.

To reduce the risk, the Board places reliance upon the skills and expertise of the Manager and its strong track record for investing in this segment of the market. Investments are actively and regularly monitored by the Manager and the Board receives detailed reports on the portfolio in addition to the Manager's report at regular Board meetings. The Manager also seeks to limit these risks through building a highly diversified portfolio with companies in different sectors and markets at different stages of development.

Venture Capital Trust Approval Risk

The current approval as a venture capital trust allows investors to take advantage of income tax reliefs on initial investment and ongoing tax-free capital gains and dividend income. Failure to meet the qualifying requirements could result in investors losing the income tax relief on initial investment and loss of tax relief on any tax-free income or capital gains received. In addition, failure to meet the qualifying requirements could result in a loss of listing of the shares.

To reduce this risk, the Board has appointed the Manager which has significant experience in venture capital trust management, and is used to operating within the requirements of the venture capital trust legislation. In addition, to provide further formal reassurance, the Board has appointed PwC as taxation adviser to the Company. PwC reports every six months to the Board to confirm independently compliance with the venture capital legislation, to highlight areas of risk and to inform on changes in legislation.

Compliance Risk

The Company is listed on the London Stock Exchange and is required to comply with the rules of the UK Listing Authority, as well as with the Companies Acts, Financial Reporting Standards and other legislation. Failure to comply with these regulations could result in a delisting of the Company's shares, or other penalties under the Companies Acts or from financial reporting oversight bodies.

In July 2013 the Alternative Investment Fund Directive ("AIFMD") was implemented, a European directive affecting the regulation of VCTs. Amati VCT 2 has been entered in the register of small registered UK AIFMs on the Financial Services register at the Financial Conduct Authority ("FCA"). As a registered firm there are a number of regulatory obligations and reporting requirements which must be met in order to maintain its status as an AIFM.

Board members and the Manager have considerable experience of operating at senior levels within quoted businesses. In addition, the Board and the Manager receive regular updates on new regulation from the auditor, lawyers and other professional bodies.

Internal Control Risk

Failures in key controls, within the Board or within the Manager's business could put assets of the Company at risk or result in reduced or inaccurate information being passed to the Board or to shareholders.

The Board seeks to mitigate the internal control risk by setting policy, regular reviews of performance, enforcement of contractual obligations and monitoring progress and compliance. Details of the Company's internal controls are on page 31.

Financial Risk

By its nature, as a venture capital trust, the Company is exposed to market price risk, credit risk, liquidity risk and interest rate risk. The Company's policies for managing these risks are outlined in full in notes 22 to 25 to the financial statements on pages 53 to 55.

The Company is financed through equity.

Liquidity Risk

The Company's investments may be difficult to realise. As a closed-ended vehicle the Company does have the long-term funding appropriate to making investments in illiquid companies. However, if the underlying investee companies run into difficulties then their shares can become illiquid for protracted periods of time. In these circumstances the Manager would work with the investee company and its advisors to seek appropriate solutions.

Market Risk

Investment in AIM-traded, ISDX-traded and unquoted companies, by its nature, involves a higher degree of risk than investment in companies on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. At times of adverse market sentiment the shares of small companies can become very difficult to sell, and values can fall rapidly. The Company's closed-end structure is important in this regard, in that it is less likely to become a forced seller at such points. The Company's investment policy also allows the Manager to invest in much larger more liquid companies through non-qualifying holdings. These can provide liquidity in times of market adversity.

Economic Risk

Events such as economic recession and movement in interest rates can affect investor sentiment towards liquidity risk, and hence have a negative impact on the valuation of smaller companies. The Manager seeks to mitigate this risk by seeking to adopt a suitable investment style for the current point in the business cycle, and to diversify the exposure to geographic end markets.

Reputational Risk

Inadequate or failed controls might result in breaches of regulations or loss of shareholder trust. The Manager operates a robust risk management system which is reviewed regularly to ensure the controls in place are effective in reducing or eliminating risks to the Company. Details of the Company's internal controls are on page 31.

Operational Risk

Failure of the Manager's, or other contracted third parties', accounting systems or disruption to their businesses might lead to an inability to provide accurate reporting and monitoring or loss to shareholders. The Manager regularly reviews the performance of third party suppliers at monthly management meetings and quarterly Board meetings of the Manager.

Additional disclosures required by the Companies Act 2006

The Company had no employees during the year and the Company has 4 non-executive directors, all of which are male. The Company, being an externally managed investment company with no employees, has no policies in relation to environmental matters, social, community and human rights issues. In respect of the Bribery Act the Manager believes there are no reasons or circumstances which could be foreseen in which any of the third party service providers might fall foul of the Bribery Act, the Manager has detailed procedures in place covering the giving, receiving, authorising and recording of gifts and hospitality by staff of the Manager.

By order of the Board

The City Partnership (UK) Limited
Company Secretary

16 April 2014

Principal Activity and Status

The Company is registered as a public limited company in England under registration number 04138683. The directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with section 274 of the Income Tax Act 2007.

Directors

The directors of the Company during the year under review were Julian Avery, Mike Killingley, Christopher Macdonald and Christopher Moorsom. Brief biographical details of the directors are given on page 18. All directors will retire at the Annual General Meeting in 2014 and, being eligible, offer themselves for re-election.

Management

The Board has delegated the management of the investment portfolio to the Manager and the Manager also provides or procures the provision of company secretarial and administrative services to the Company.

Share Capital

There were 27,893,328 ordinary shares in issue at the year end. Since the year end, 892,088 shares have been issued under the Top Up Offer, please refer to Note 20 on page 51 for further details.

During the year 1,594,391 shares in the Company were bought back for an aggregate consideration of £1.69m at an average price of 105.0p per share. All of the shares were cancelled after purchase. The purpose of the share buybacks was to satisfy demand from those shareholders who sought to sell their shares during the period, given that there is a very limited secondary market for shares in Venture Capital Trusts generally. It remains the Board's policy to buy back shares in the market, subject to the overall constraint that such purchases are in the Company's interest including the maintenance of sufficient resources for investment in new and existing investee companies and the continued payment of dividends to shareholders.

During the year 2,198,145 shares in the Company were allotted at an average price of 115p per share raising £2.5m net of issue costs.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House. The holders of ordinary shares are entitled to receive dividends when declared, to receive the Company's report and accounts, to attend and speak at general meetings, to appoint proxies and to exercise voting rights. There are no restrictions on the voting rights attaching to the Company's shares or the transfer of securities in the Company.

At a general meeting of the Company held on 7 March 2013 the following resolution was passed:

Authority to Allot Shares

The directors were authorised pursuant to Section 551 of the Companies Act 2006 to allot relevant securities up to a maximum aggregate nominal value of £1,250,000. This authority expires on 7 March 2018.

Details of the principal investments made by the Company are shown in the portfolio of investments on pages 10 to 13.

Auditor

A resolution to re-appoint BDO LLP as auditor will be proposed at the forthcoming Annual General Meeting.

Substantial Shareholdings

At the date of this report there was no individual shareholding exceeding 3% of the issued ordinary share capital.

Global Greenhouse Gas Emissions

The Company has no direct greenhouse gas emissions to report from its operations, being an externally managed investment company.

Going Concern

In accordance with FRC Guidance for directors on going concern and liquidity risk the directors are of the opinion that, at the time of approving the financial statements, the Company has adequate resources to continue in business for the foreseeable future. In reaching this conclusion the directors took into account the nature of the Company's business and Investment Policy, its risk management policies, the diversification of its portfolio, the cash holdings and the liquidity of non-qualifying investments. The Company's business activities, together with the factors likely to affect its future development, performance and position including the financial risks the Company is exposed to are set out in the Strategic Report on pages 19 to 24. As a consequence, the directors believe that the Company has sufficient cash and liquid investments to continue to operate and that together with funds raised after the end of the financial year under the new offer the Company is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors believe it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Accountability and Audit

The statement of directors' responsibilities is set out on page 33 of this report. The independent auditor's report is set out on pages 36 to 38 of this report. The directors who were in office on the date of approval of these Annual Report and Financial Statements have confirmed that, as far as they were aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Annual General Meeting

The Annual General Meeting will be held at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London, EC2Y 8DT on Thursday 26 June 2014 at 10.15am. The notice of meeting is set out on pages 56 to 57 of this Annual Report and a proxy form is included. The following denotes the business to take place:

Ordinary Resolutions

Resolution 1: Approval of the Annual Report

Shareholders will be asked to receive the directors' report and financial statements for the financial year ended 31 January 2014, together with the independent auditor's report thereon.

Resolution 2: Approval of the Directors' Remuneration Policy

This resolution proposes the approval of the Directors' Remuneration Policy as set out on page 34.

Resolution 3: Approval of the Directors' Remuneration Report

Under The Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013, the Company is required to produce a Directors' Annual Report on Remuneration and to seek shareholder approval for that report at the Annual General Meeting. The Directors' Annual Report on Remuneration is on pages 34 to 35 of the Annual Report and Financial Statements.

Resolution 4: Approval of a final dividend of 4p per share

Shareholders will be asked to approve a final dividend of 4p per share payable on 25 July 2014 to shareholders on the register at 4 July 2014.

Resolutions 5 and 6: Re-appointment of auditor

These resolutions provide for the re-appointment of BDO LLP as auditor to the Company to hold office from the conclusion of the Annual General Meeting until the conclusion of the next annual general meeting at which accounts are laid before the Company and to authorise the directors to fix the auditor's remuneration.

Resolution 7: Re-election of Julian Avery

Julian Avery will retire and being eligible offers himself for re-election

Resolution 8: Re-election of Mike Killingley

Mike Killingley will retire and being eligible offers himself for re-election.

Resolution 9: Re-election of Christopher Macdonald

Christopher Macdonald will retire and being eligible offers himself for re-election.

Resolution 10: Re-election of Christopher Moorsom

Christopher Moorsom retires in accordance with the AIC Code, and being eligible, offers himself for re-election.

Special Resolutions

Resolution 11: Life of the Company and Amendment to the Articles

It is proposed that the Articles be amended so that the continuation resolution to be put to shareholders at the annual general meeting of the Company in 2018 is instead put to shareholders at the annual general meeting in 2020 (and at each annual general meeting of the Company at five year intervals thereafter) in order that the duration of the Company is extended to a date at least five years after the closing of the Top Up Offer.

Resolution 12: Renewal of authority for directors to disapply pre-emption rights in respect of their authority to allot shares

Shareholders will be asked to renew the directors' authority to disapply pre-emption rights in respect of their authority to allot unissued ordinary shares of the Company up to an aggregate nominal amount of £1,250,000.

If the directors wish to allot any of the unissued ordinary shares for cash they must, in the first instance, offer them to existing shareholders in proportion to their shareholding. There may be occasions when the directors will need the flexibility to finance business opportunities by issue of ordinary shares without a pre-emptive offer to existing shareholders. This authority will expire on the earlier of the date of the next Annual General Meeting of the Company in 2015 and the date which is 15 months after the date on which this resolution is passed.

Resolution 13: Renewal of authority for the Company to purchase its own shares

The directors are aware that there is an illiquid market in the Company's shares. The directors therefore consider that the Company should have the ability to make market purchases of its ordinary shares in the market for cancellation. A special resolution will be proposed at the Annual General Meeting seeking authority for the Company to purchase up to 14.99% of the issued share capital as at the date of the Annual General Meeting. This authority will expire on the earlier of the date of the Company's annual general meeting to be held in 2015 and the date which is 15 months after the date on which this resolution is passed. It is the directors' intention to seek to renew this general authority annually, and more frequently if required.

By order of the Board

The City Partnership (UK) Limited
Company Secretary

16 April 2014

Background

The Board of Amati VCT 2 plc has considered the principles and recommendations of the AIC Code of Corporate Governance ("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 principles set out the UK Corporate Governance Code (the "Code"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

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

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

The Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function

For the reasons set out in the AIC Guide, and in the preamble to the Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

Board of Directors

The Company has a Board of four directors, all of whom are considered independent non-executive directors under the AIC Code. Christopher Moorsom is the Senior Independent Director. Biographical details of all directors are shown on page 18.

In accordance with the Articles all directors are subject to re-election by shareholders at the first opportunity after their appointment and to further re-election thereafter at three year intervals but in accordance with corporate governance best practice, the Board has resolved that all directors will stand for re-election on an annual basis.

Directors' retirement and re-election are subject to the Articles of Association and the AIC Code. At the forthcoming Annual General Meeting and each subsequent annual general meeting all directors will retire and stand for re-election. In accordance with the AIC Code, Christopher Moorsom stands for re-election as a non-executive director serving more than nine years should be subject to annual re-election. As all directors have acted in the interests of the Company throughout the period of their appointment and demonstrated commitment to their roles the Board recommends they be re-elected at the Annual General Meeting.

No director has a contract of service with the Company. All of the directors have been provided with letters of appointment which are available for inspection by shareholders immediately before and after the Company's Annual General Meeting.

Directors are provided with key information on the Company's activities including regulatory and statutory requirements and internal controls by the Manager. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practical, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance. The Board has direct access to secretarial advice and compliance services through the company secretary, who is responsible for ensuring that Board procedures are followed and applicable procedures complied with.

All directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the AIC Code, the Company has in place directors' and officers' liability insurance. On appointment any new director will be given a comprehensive introduction to the Company's business including meeting the Company's key advisers.

When directors have concerns that cannot be resolved about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in a Board minute. On resignation, a director who has any such concerns is encouraged to provide a written statement to the Chairman, for circulation to the Board.

The Board is responsible to shareholders for the proper management of the Company and meets at least quarterly. The AIC Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that it has firm direction and control of the Company. This is achieved by a management agreement between the Company and the Manager, which sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters including strategy, investment and dividend policies, gearing and corporate governance proceedings are reserved for the approval of the

Board of directors.

All the directors are equally responsible for the proper conduct of the Company's affairs. In addition, the directors are responsible for ensuring that the policies and operations are in the best interests of all the Company's shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

The chairman and the company secretary establish the agenda for each Board meeting. The necessary papers for each meeting are distributed well in advance of each meeting ensuring all directors receive accurate, timely and clear information.

Independence of Directors

The Board regularly reviews the independence of each director and of the Board as a whole in accordance with the guidelines in the AIC Code. The Company has an investment in Brooks Macdonald Group, of which Christopher Macdonald is chief executive officer. The Board has concluded that the independence of Christopher Macdonald is not compromised by this relationship. Directors' interests are noted at the start of each Board meeting and any director would not participate in the discussion concerning any investment in which he has an interest.

The Board does not consider that length of service will necessarily compromise the independence or effectiveness of directors and no limit has been placed on the overall length of service. The Board consider that such continuity and experience can be of significant benefit to the Company and its shareholders. However, in accordance with the Articles and the AIC Code any director who has served for more than nine years will stand for re-election annually therefore a resolution to re-elect Christopher Moorsom is included in the Notice of the Annual General Meeting. The Board has resolved that all directors will stand for re-election on an annual basis.

The Board believes that each director has demonstrated that he is independent in character and judgment and there are no relationships or circumstances which could affect their objectivity.

Board Performance

The Board carried out a performance evaluation of the Board, committees and individual directors led by the senior independent director in the year. Due to the size of the Company, the fact that all directors are independent non-executive and the costs involved external facilitators are not used in evaluation of the Board. The directors concluded that the balance of skills is appropriate and all directors contribute fully to discussion in an open, constructive and objective way. The size and composition of the Board and its committees is considered adequate for the effective governance of the Company. The biographies of the directors shown on page 18 demonstrate the wide range of investment, commercial and professional experience that they contribute.

Board Committees

Copies of the terms of reference of the Company's audit committee are available from the company secretary and can be found on Amati's website: www.amatiglobal.com.

Audit Committee

The audit committee comprises Mike Killingley (chairman), Christopher Macdonald and Christopher Moorsom. Julian Avery is not a member of the audit committee, however he is invited to attend the audit committee meetings by the chairman of the audit committee. The terms of reference of the audit committee are available from the company secretary and are also available from the Company's website www.amatiglobal.com/avct2.php.

The audit committee met twice this year and the audit committee chairman also held private discussions with the external auditor without the Manager. After each meeting, the chairman reports to the Board on the matters discussed, on recommendations and on actions to be taken.

During the year ended 31 January 2014 the audit committee discharged its responsibilities by:

- Reviewing all financial statements released by the Company (including the annual and half-yearly report and interim management statements);
- Reviewing the Company's accounting policies;
- Monitoring the effectiveness of the system of internal controls and risk management;
- Approving the external auditor's plan and fees;
- Receiving a report from the external auditors following their detailed audit work, and discussing key issues arising from that work; and
- Reviewing its' own terms of reference.

The key areas of risk identified by the audit committee in relation to the business activities and financial statements of the Company are:

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

These matters are monitored regularly by the Manager, and reviewed by the Board at every Board meeting. They were also discussed with the Manager and the auditor at the audit committee meeting held to discuss the annual financial statements.

The committee concluded:

VCT status – the Manager confirmed to the audit committee that the conditions for maintaining the Company's status had been complied with throughout the year. The Company's VCT status is also reviewed by the Company's tax adviser, PwC, and PwC's reports are always presented to and reviewed at the Board meeting immediately following their receipt.

Valuation of unquoted investments – the Manager confirmed to the audit committee that the basis of valuation for unquoted companies was consistent with the prior year and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. A comprehensive report on the valuation of unquoted investments is presented and discussed at every Board meeting; directors are also consulted about material changes to those valuations between Board meetings.

The Manager and auditor confirmed to the audit committee that they were not aware of any material unadjusted misstatements. Having reviewed the reports received from the Manager, the audit committee is satisfied that the key areas of risk and judgement have been properly addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

The audit committee has managed the relationship with the external auditor and assessed the effectiveness of the audit process. When assessing the effectiveness of the process for the year under review the Committee considered the auditor's technical knowledge and that they have a clear understanding of the business of the Company; that the audit team is appropriately resourced; that the auditor provided a clear explanation of the scope and strategy of the audit and that the auditor maintained independence and objectivity. As part of the review of auditor effectiveness and independence, BDO LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. BDO LLP do not provide any non-audit services to the Company and the audit committee must approve the appointment of the external auditor for any non-audit services. BDO LLP and prior to their merger PKF (UK) LLP has held office as auditor for a total of 3 years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner started working with the Company in the current financial year.

Following the review as noted above the audit committee is satisfied with the performance of BDO LLP and recommends the services of BDO LLP to the shareholders in view both of that performance and the firm's extensive experience in auditing Venture Capital Trusts.

Nomination Committee

As the Board is small and consists of non-executive directors and in view of the nature of a Venture Capital Trust Company it has been decided that a nomination committee does not need to be formed. The appointment of new directors is decided by the whole Board.

The Board has considered the recommendations of the Code concerning gender diversity and welcomes initiatives aimed at increasing diversity generally. The Board believe, however, that all appointments should be made on merit rather than positive discrimination. The policy of the Board is that maintaining an appropriate balance around the Board table through a diverse mix of skills, experience, knowledge and background is of paramount importance and gender diversity is a significant element of this.

Any search for new Board candidates is conducted, and appointments made, on merit, against objective selection criteria having due regard, amongst other things, to the benefits of diversity on the Board, including gender. When recommending new appointments to the Board the directors draw on their extensive business experience and range of contacts to identify suitable candidates; the use of formal advertisements and external consultants is not considered cost-effective given the Company's size.

Remuneration Committee

Where a Venture Capital Trust Company has no executive directors, the UK Corporate Governance Code principles relating to directors' remuneration do not apply and as such no remuneration committee has been appointed. The remuneration of the directors is reviewed by the whole Board although no director is involved in setting his own remuneration.

Board and Committee Meetings

The following table sets out the directors' attendance at full Board and audit committee meetings held during the year ended 31 January 2014.

Director	Board meetings held	Board meetings attended	Audit Committee meetings held	Audit Committee meetings attended
Julian Avery	5	5	2	2*
Mike Killingley	5	5	2	2
Christopher Macdonald	5	4	2	2
Christopher Moorsom	5	5	2	2

* *Julian Avery is not a member of the audit committee but is invited to attend audit committee meetings.*

The Board is in regular contact with the Manager between Board meetings.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. Shareholders have the opportunity to meet the Board at the Annual General Meeting. All shareholders are welcome to attend the meeting and to ask questions of the directors. The Board is also happy to respond to any written queries made by shareholders during the course of the year. All communication from shareholders is recorded and reviewed by the Board to ensure that shareholder enquiries are promptly and adequately resolved. The Company's senior independent director, Christopher Moorsom, is available to shareholders who have concerns that other channels have failed to allay and can be contacted through the company secretary, The City Partnership (UK) Limited.

The notice of the Annual General Meeting accompanies this annual report, which is sent to shareholders. A separate resolution is proposed for each substantive issue. The Board and representatives of the Manager are available to answer any questions shareholders may have.

The Company also communicates with shareholders through annual and half-yearly reports, which appear on the Company's website (http://www.amatiglobal.com/avct2_literature.php) and through the interim management statements. The Board as a whole approves the terms of the Chairman's Statement and Fund Manager's Review which form part of these reports in order to ensure that they present a balanced and understandable assessment of the Company's position.

Internal Control

The Board acknowledges that it is responsible for the Company's internal control systems and for reviewing their effectiveness. In accordance with the AIC Code and the updated Turnbull guidance published by the Financial Reporting Council in 2005, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. Internal controls are designed to manage the particular needs of the Company and the risks to which it is exposed. The internal control systems aim to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and which is used for publication, and that the assets of the Company are safeguarded. They can by their nature only provide reasonable and not absolute assurance against material misstatement or loss. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the results and investment performance.

The Board has delegated contractually to third parties, as set out on page 21, the management of the investment portfolio, the custodial services, including the safeguarding of the assets, the day-to-day accounting, company secretarial and administration requirements and registration services.

Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered. The Board receives and considers regular reports from the Manager. Ad hoc reports and information are supplied to the Board as required. It remains the role of the Board to keep under review the terms of the management agreement with the Manager.

A bi-annual review of the control systems is carried out which covers consideration of the key risks in three major areas: corporate strategy and compliance with laws and regulations; financial management and company reporting and relationships with service providers. Each risk is considered with regard to the controls exercised at Board level, reporting by service providers and controls relied upon by the Board. The company secretary reviews the annual statutory accounts to ensure compliance with Companies Acts and the AIC Code and the audit committee reviews financial information prior to its publication. The principal features of the internal control systems which the Company has in place in respect of financial reporting include segregation of duties between the review and approval of unquoted investment valuations and the recording of these valuations in the accounting records. Bank reconciliations, cash forecasts and investment valuations are produced on a weekly basis for review by the Manager. Quarterly management accounts are produced for review and approval by the Manager and the Board.

Whistle Blowing

The Board has considered arrangements by which staff of the Manager or the company secretary may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for proportionate and independent investigation of such matters, and where necessary, for appropriate follow-up action to be taken within their respective organisations.

Listing Rule Disclosures DTR 7.2.6

The Company has one class of share, ordinary shares, which carry no right to fixed income. Details of the Company's share capital, including the number of shares authorised and allotted and rights attached to such shares are set out in the Directors' Report on page 25. There were no shareholders with a significant holding as at the year end and the date of this report.

The Company may by ordinary resolution appoint any person who is willing to act as a director, either to fill a vacancy or as an additional director. Each director is to be appointed by separate resolution.

The Company may by special resolution make amendment to the Company's Articles of Association.

On behalf of the Board

Julian Avery
Chairman

16 April 2014

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. Under that law the directors are required to prepare 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 they have been prepared in accordance with applicable UK 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' 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 DTR4

The directors confirm to the best of their knowledge:

- The financial statements which have been prepared in accordance with UK Generally Accepted Accounting Practice give a true and fair view of the assets, liabilities, financial position and profit of the company.
- The annual report includes a fair review of the development and performance of the business and the financial position of the company, together with a description or the principal risks and uncertainties that they face.

Introduction

The Board has prepared this report in accordance with the requirements of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). Ordinary resolutions for the approval of the Directors' Remuneration Policy and the Directors' Annual Report on Remuneration will be put to members at the forthcoming Annual General Meeting.

The Company's auditor's, BDO LLP, are required to give their opinion on certain information included in this report. The disclosures which have been audited are indicated as such. The auditor's opinion on these and other matters is included in the Independent Auditor's Report on pages 36 to 38.

Annual Statement from the Chairman of the Company

There have been no changes to directors' remuneration in the year to 31 January 2014, the directors' fees have been unchanged since November 2011. Directors' fees are reviewed annually and are set by the Board to attract individuals with the appropriate range of skills and experience. In determining the level of fees their duties and responsibilities are considered, together with the level of time commitment required in preparing for and attending meetings. The Company has not appointed a remuneration committee and any decisions on remuneration are taken by the Board as a whole. The remit of the Board regarding remuneration is included in the Statement of Corporate Governance which is set out on page 30.

Directors' Remuneration Policy

The Board's policy is that the remuneration of directors should reflect the experience of the Board as a whole, be fair and comparable with that of other companies that are similar in size and nature to the Company and have similar objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the directors required to oversee effectively the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the directors and the value and amount of time committed to the Company's affairs. It is the intention of the Board that, unless any revision to this policy is deemed necessary, this policy will continue to apply in the forthcoming and subsequent financial years. The Board has not received any views from the Company's shareholders in respect of the levels of directors' remuneration.

The fees for the directors are set within maximum limits determined from time to time by the Company in general meeting. At present, the maximum aggregate remuneration is as contained in the Company's Articles, which limit the fees payable to the directors to £90,000 per annum in aggregate. The directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. No arrangements have been entered into between the Company and the directors to entitle any of the directors to compensation for loss of office.

Assuming this policy is approved by the members at the forthcoming AGM, it is intended that this policy will continue for the year ending 31 January 2015 and subsequent years. In accordance with the Regulations, a binding ordinary resolution to approve the Directors' Remuneration Policy will be put to shareholders at least once every three years.

Directors' Annual Report on Remuneration

Terms of appointment

No director has a contract of service with the Company. All of the directors have been provided with letters of appointment which include details of fees payable. The letters of appointment provide that directors are appointed for a period of up to three years and are subject to re-election by shareholders at the first annual general meeting after their appointment. Thereafter they must retire at intervals of no more than three years. In accordance with corporate governance best practice, the Board have resolved that all directors will stand for annual re-election. Their re-election is subject to shareholder approval. The letters of appointment are available for inspection on request from the company secretary. Any director who has served on the Board for more than nine years will submit themselves for re-election annually. There is no period of notice to be given to terminate the letters of appointment and no provision for compensation upon early termination of appointment.

The following table shows, for each director, the original appointment date and the annual general meeting (AGM) at which they may stand for re-election.

Director	Date of original appointment	Due date for re-election
Julian Avery	8 November 2011	2014 AGM
Mike Killingley	22 February 2006	2014 AGM
Christopher Macdonald	8 November 2011	2014 AGM
Christopher Moorsom	12 June 2003	2014 AGM

Directors' fees for the year (Audited)

The fees payable to individual directors in respect of the year ended 31 January 2014 are shown in the table below.

Director	Total fee for year ended 31 January 2014 £	Total fee for year ended 31 January 2013 £
Julian Avery	22,000	22,000
Mike Killingley	17,500	17,500
Christopher Macdonald	15,000	15,000
Christopher Moorsom	15,000	15,000
	69,500	69,500

No taxable benefits were paid to the directors, no pension related benefits were paid to the directors and no money or other assets were received or receivable by the directors for the relevant financial year. No payments were made to past directors or any payments made for loss of office.

Relative importance of spend on pay

The table below shows the remuneration paid to directors and shareholder distributions in the year to 31 January 2014 and the prior year:

	2014 £	2013 £	Percentage increase
Total dividend paid to shareholders	1,725,989	1,559,966	10.6%
Total directors' fees	69,500	69,500	0.0%

Directors' shareholdings (Audited)

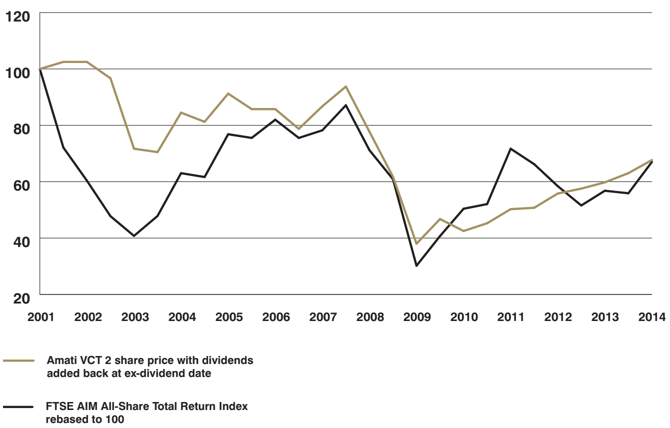
The directors who held office during the year and their interests in the shares of the Company (including beneficial and family interests) were:

	31 January 2014		31 January 2013	
	Shares held	% of issued share capital	Shares held	% of issued share capital
Julian Avery	76,853	0.28	63,752	0.23
Mike Killingley	45,271	0.16	36,151	0.13
Christopher Macdonald	36,529	0.13	27,409	0.10
Christopher Moorsom	37,680	0.14	37,680	0.14

On 18 March 2014 Julian Avery bought 5,773 shares and Christopher Macdonald bought 11,547 shares under the Top Up Offer at a price of 135.09p per share. The Company confirms that it has not set out any formal requirements or guidelines for a director to own shares in the Company.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the management agreement. The graph below compares the Company's share price with dividends added back at the ex-dividend date to the FTSE AIM All-Share Total Return Index for the period from the launch of the Company. This index was chosen for comparison purposes, as it is the benchmark used for investment performance measurement purposes.



At the last AGM held on 18 June 2013, 87.3% of shareholders voted for, 12.7% voted against and 43,797 shares were withheld in respect of the resolution approving the Directors' remuneration report (including the remuneration policy). An ordinary resolution for the approval of the Directors' Annual Report on Remuneration will be put to shareholders at the forthcoming AGM.

On behalf of the Board

Julian Avery
Chairman

16 April 2014

INDEPENDENT AUDITOR'S REPORT
to the Members of Amati VCT 2 plc

We have audited the financial statements of Amati VCT 2 plc (the "company") for the year ended 31 January 2014 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 January 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement and our audit approach to these risks

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

The assessment of the carrying value of investments, particularly unquoted investments

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

We challenged the assumptions inherent in the valuation of unquoted investments, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements. Our audit procedures included reviewing the historical financial statements and recent management information available for the unquoted investments used to support assumptions about maintainable earnings used in the valuations and considering the multiples applied by reference to independent market data in arriving at the valuations adopted. Where alternative assumptions could reasonably be applied, we developed our own point estimates 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.

We considered wider economic and commercial factors that, in our judgement, could impact on the recoverability and valuation of the loan investments, and we considered whether there was any permanent diminution in value in investments held, that should be reported as realised losses.

We also considered the controls over the pricing of quoted investments and tested the pricing of quoted investments to independent sources. We challenged the appropriateness of the use of the quoted bid price by reviewing the liquidity of the market for a sample of investments held.

Revenue recognition

Revenue, which consists of dividends receivable from investee companies and interest earned on loans to investee companies and other financial assets, is considered to be a significant risk as it is one of the key drivers of dividend returns to investors.

We considered the controls relating to revenue recognition and undertook testing of interest income by comparing actual income to expectations generated using the interest rates in the loan instruments. We also tested dividends receivable by reference to expectations set from independent published data on dividends declared by the investee companies held in the reporting period. We sample tested the categorisation of dividends received from investee companies between revenue and capital.

The Audit Committee's consideration of these matters is set out on pages 29 to 30.

Purpose of this report

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as 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. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £340,000. In determining this, we based our assessment on a level of 1% of investments which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £255,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £340,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net revenue returns of the company. We determined materiality for this area to be £85,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £7,000, 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 directors' report for the financial period 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 28 to 32 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 25 and 26, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

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

16 April 2014

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

INCOME STATEMENT

for the year ended 31 January 2014

	Note	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Return on investments	9	-	7,978	7,978	-	2,514	2,514
Income	2	431	219	650	382	-	382
Investment management fees	3	(144)	(1,855)	(1,999)	(127)	(382)	(509)
Other expenses	5	(282)	-	(282)	(277)	-	(277)
Profit/(loss) on ordinary activities before taxation		5	6,342	6,347	(22)	2,132	2,110
Taxation on ordinary activities	6	-	-	-	(1)	-	(1)
Profit/(loss) on ordinary activities after taxation		5	6,342	6,347	(23)	2,132	2,109
Basic and diluted return/(loss) per Ordinary share	8	0.02p	23.00p	23.02p	(0.08)p	7.71p	7.63p

The total column is the profit and loss account of the Company, with the revenue and capital columns representing supplementary information under the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("SORP") revised in January 2009.

All the items above derive from continuing operations of the Company. There were no other recognised gains or losses in the year.

The only difference between the reported return on ordinary activities before tax and the historical profit is due to the fair value movement on investments. As a result a note on historical cost profit and loss has not been prepared.

The notes on pages 43 to 55 form part of these financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 January 2014

	Note	2014 £'000	2013 £'000
Opening shareholders' funds		29,106	28,680
Profit for the year		6,347	2,109
Issue of shares	14	2,610	2,513
Share buybacks	14	(1,690)	(2,572)
Share issue costs	14	(132)	(64)
Dividends paid	7	(1,726)	(1,560)
Closing shareholders' funds		34,515	29,106

BALANCE SHEET

as at 31 January 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Investments held at fair value	9	32,103	29,134
Current assets			
Debtors	10	1,146	98
Cash at bank		2,929	99
Total current assets		4,075	197
Current liabilities			
Creditors: amounts falling due within one year	11	(392)	(225)
Provisions for liabilities and charges			
Performance fee provision	12	(1,271)	-
Net current assets/(liabilities)		2,412	(28)
Total assets less current liabilities		34,515	29,106
Capital and reserves			
Called up share capital*	13	1,395	1,364
Share premium account*	14	5,139	2,771
Merger reserve*	14	1,322	1,956
Special reserve	14	23,029	26,445
Capital redemption reserve*	14	239	160
Capital reserve#	14	3,507	(3,469)
Revenue reserve	14	(116)	(121)
Equity shareholders' funds		34,515	29,106
Net asset value per share	15	123.74p	106.66p

* *These reserves are not distributable.*

\# *These reserves are not wholly distributable (see note 14).*

The financial statements on pages 39 to 55 were approved and authorised for issue by the Board of directors on 16 April 2014 and were signed on its behalf by

Julian Avery
Chairman

Company Number 04138683

The accompanying notes on pages 43 to 55 are an integral part of the balance sheet.

CASH FLOW STATEMENT

for the year ended 31 January 2014

	Note	2014 £'000	2013 £'000
Operating activities			
Investment income received		655	358
Deposit interest received		2	-
Other interest received		-	5
Investment management fees		(546)	(504)
Other operating costs		(280)	(238)
Merger costs of the Company		-	(6)
Net cash outflow from operating activities	17	(169)	(385)
Taxation			
Taxation paid		-	(1)
Financial investment			
Purchases of investments		(8,435)	(7,027)
Disposals of investments		12,860	8,018
Net cash inflow from financial investment		4,425	991
Dividends			
Payment of dividends		(1,726)	(1,560)
Net cash inflow/(outflow) before financing		2,530	(955)
Financing			
Refund of merger costs relating to asset acquisition		19	-
Merger costs relating to asset acquisition		-	(7)
Issue of shares		2,077	2,442
Expenses of the issue of shares		(106)	(20)
Share buybacks		(1,690)	(2,693)
Net cash inflow/(outflow) from financing		300	(278)
Increase/(decrease) in cash		2,830	(1,233)
Reconciliation of net cash flow to movement in net cash			
Net cash at 1 February		99	1,332
Net cash at 31 January		2,929	99
Increase/(decrease) in cash during the year		2,830	(1,233)

The accompanying notes on pages 43 to 55 are an integral part of the statement.

1 Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include a revaluation of fixed asset investments, and in accordance with applicable Accounting Standards and law in the United Kingdom and with the Statement of Recommended Practice, "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") revised in January 2009.

Income

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and, where no dividend date is quoted, when the Company's right to receive payment is established.

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. Interest receivable is included in the accounts on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the income statement, all expenses have been prescribed as revenue items except as follows:

- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the investment management fee is currently allocated 25% to revenue and 75% to capital, which reflects the directors' expected long-term view of the nature of the investment returns of the Company.
- Performance fees are paid 100% from capital.

Issue Costs

Issue costs in respect of ordinary shares issued by the Company are deducted from the share premium account.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are only recognised when they arise from timing differences where recovery in the foreseeable future is regarded as more likely than not. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is not discounted.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as a particular item to which it relates, using the Company's effective rate of tax, as applied to those items allocated to revenue, for the accounting period.

Investments

Investments are designated on initial recognition as Fair Value through Profit and Loss and are measured at subsequent reporting dates at fair value.

Gains and losses arising from changes in fair value are considered to be realised to the extent that they are readily convertible to cash in full at the balance sheet date.

1 Accounting Policies (continued)

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the Company's normal policy as these investments are held as part of the Company's portfolio with a view to the ultimate realisation of capital gains. Carrying investments at fair value is specifically permitted under Financial Reporting Standard 9 "Associates and Joint Ventures", where venture capital entities hold investments as part of a portfolio.

In respect of investments that are traded on AIM or ISDX, these are generally valued at bid prices at close of business on the Balance sheet date, in accordance with FRS 26. Investments traded on SETS (London Stock Exchange's electronic trading service) are valued at closing price as this is considered to be a more accurate indication of fair value.

Unquoted investments are shown at fair value as assessed by the directors in accordance with International Private Equity Venture Capital Valuation ("IPEV") guidelines. Valuations of unquoted investments are reviewed quarterly:

- the shares may be valued by using the most appropriate methodology recommended by the IPEV guidelines, including earnings multiples, net assets, discounted cashflows and industry valuation benchmarks.
- alternatively where a value is indicated by a material arms-length transaction by a third party in the shares of the company the valuation will normally be based on this.

Convertible loan stock instruments are valued using a discounted cash flow calculation of the underlying host loan instrument and by valuing the option at fair value using an appropriate option valuation model.

Realised and unrealised surpluses or deficits on the disposal of investments, the revaluation of investments and permanent impairments in the value of investments are taken to the capital reserve.

Financial Instruments

The Company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are recognised on trade date when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are recognised initially at fair value plus, in the case of a financial instrument not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments are derecognised on the trade date when the Company is no longer a party to the contractual provisions of the instrument.

Foreign Currency

Foreign currency assets and liabilities are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are converted into sterling at the rates ruling at the time the transactions are executed. All exchange differences are reflected in the income statement.

Trade Creditors

Trade creditors are stated at their original invoiced value, as the difference that would be recognised from discounting future cash payments over the short payment period is not considered to be material.

Share Based Payments

In accordance with FRS20: Share Based Payments, an expense is recognised in the financial statements relating to the fair value of the share options awarded to Singer & Friedlander Investment Management Limited under the arrangements agreed on the merger of the Company with Singer & Friedlander AIM and Singer & Friedlander AIM 2 VCT as at 22 February 2006.

The fair value of the option is determined at the date of grant using a Black-Scholes pricing model and is expensed on a straight-line basis over the vesting period based on the Company's estimate of shares that will eventually vest. Further details of which are set out in note 4. Any deemed provision is transferred to a share options reserve.

2 Income

	Year to 31 January 2014 £'000	Year to 31 January 2013 £'000
Income:		
Dividends from UK companies*	486	264
Dividends from overseas companies	28	57
UK loan stock interest	106	61
Other income	28	-
Interest from deposits	2	-
	650	382

* Includes a dividend received from Antenova Limited deemed to be capital in nature.

3 Investment Management Fees

The Manager provides investment management and secretarial services to the Company under an investment management agreement. Details of this agreement are given on page 21.

Under this agreement the Manager receives a fee of 1.75% of the net asset value of the Company in arrears.

Investment management fees for the year were as follows:

	Year to 31 January 2014 £'000	Year to 31 January 2013 £'000
Due to the Manager by the Company at 1 February	127	122
Management fee charged to revenue and capital for the year	576	509
Performance fee charged to capital for the year	1,423	-
Fees paid to the Manager during the year	(546)	(504)
Due to the Manager by the Company at 31 January	1,580	127

The Manager also receives a secretarial and administration fee of £72,789 (subject to an annual increase in line with the retail prices index) annually in arrears.

The Manager is entitled to a performance fee of 20% of returns in a relevant period in excess of a minimum threshold of NAV plus dividends paid of 121.76p per share. In addition, returns are subject to a hurdle rate test of 8% simple interest for each pool of money raised and a performance fee is only payable where returns are sustained for a period of at least six months. A performance fee of £152,000 is payable in respect of the year ended 31 January 2014 (31 January 2013: £nil) and a provision of £1,271,000 has been made for a performance fee which will become payable on 31 July 2014 if returns are sustained in this six month period.

Annual running costs are capped at 3.5% of the Company's net assets, any excess being met by the Manager by way of a reduction in future management fees. The annual running costs include the directors' and Manager's fees, professional fees and the costs incurred by the Company in the ordinary course of its business (but excluding any commissions paid by the Company in relation to any offers for subscription, any performance fee payable to the Manager, irrecoverable VAT and exceptional costs, including winding-up costs).

4 Singer & Friedlander's Option

In accordance with the arrangements agreed on the merger of the Company with Singer & Friedlander AIM VCT and Singer & Friedlander AIM2 VCT, Singer & Friedlander Investment Management Limited were granted an option which provides that if by the date of payment of the final dividend in respect of the ordinary shares for the Company's accounting year ending 31 January 2013 cumulative dividends declared and paid on each ordinary share (by reference to a record date after the merger) exceed a return of 8% (compounded annually) of the net asset value per ordinary share they will be entitled to subscribe at par for such number of additional ordinary shares as shall in aggregate be equal to 15% of ordinary shares in the Company as enlarged by such subscriptions. If this target dividend rate will have been achieved by the payment of dividends in 2014 and 2015 Singer & Friedlander Investment Management Limited will be entitled to subscribe for such number of additional ordinary shares as shall in aggregate be equal to 12.5% (2014) and 10% (2015) of ordinary shares in the Company as enlarged by such subscriptions.

The value of dividends paid since the merger to the Company's accounting year ending 31 January 2014, adjusted to reflect the share consolidation in November 2011, was 38.4p, including the proposed final dividend of 4.0p, which was insufficient to trigger Singer & Friedlander Investment Management Limited's entitlement to subscribe for additional shares. It is estimated that a further 185.1p in dividends per share would require payment by 31 January 2015 in order to exceed the targeted return before the option lapses. These figures are calculated by adjusting the starting net asset value per ordinary share to take account of the share consolidation in November 2011. Regardless of performance over this period, the directors would not sanction this level of dividend within that period and, therefore, do not see any circumstances under which the option would crystallise and continue to value the option at nil (31 January 2013: nil).

5 Other Expenses

	Year to 31 January 2014 £'000	Year to 31 January 2013 £'000
Directors' remuneration	70	70
Auditor's remuneration – audit of statutory financial statements	21	20
Administration and secretarial services	72	70
Other expenses	119	117
	282	277

The Company has no employees other than directors.

Details of directors' remuneration are provided in the audited section of the directors' remuneration report on pages 34 and 35.

6 Tax on Ordinary Activities

6a Analysis of credit for the year

	Year to 31 January 2014 £'000	Year to 31 January 2013 £'000
Charge for the year	-	1

The income statement shows the tax credit allocated between revenue and capital.

6b Factors affecting the tax charge for the year

	Year to 31 January 2014 £'000	Year to 31 January 2013 £'000
Profit on ordinary activities before taxation	6,347	2,110
Corporation tax at standard rate of 23.1667% (2013: 24.33%)	1,470	513
Effect of:		
Movement in excess management expenses	497	178
Non-taxable dividends	(119)	(78)
Non-taxable gains on investments	(1,848)	(612)
Tax charge for the year (note 6a)	-	1

Due to the Company's tax status as an approved Venture Capital Trust, deferred tax has not been provided on any net capital gains arising on the disposal of investments as such gains are not taxable.

No deferred tax asset has been recognised on surplus expenses carried forward as it is not envisaged that any such tax will be recovered in the foreseeable future. The amount of unrecognised deferred tax asset is £1,456,000 (31 January 2013: £1,181,000).

7 Dividends Paid

	2014 £'000	2013 £'000
Final dividend for the year ended 31 January 2012 of 3.13p per ordinary share paid on 17 July 2012	-	870
Interim dividend for the year ended 31 January 2013 of 2.5p per ordinary share paid on 26 October 2012	-	690
Final dividend for the year ended 31 January 2013 of 3.5p per ordinary share paid on 15 July 2013	969	-
Interim dividend for the year ended 31 January 2014 of 2.75p per ordinary share paid on 25 October 2013	757	-
	1,726	1,560

8 Return per Share

The revenue return per share is based on the net profit on ordinary activities after taxation of £5,000 (31 January 2013: £23,000 loss) and on 27,572,227 (31 January 2013: 27,624,086) shares, being the weighted average number of shares in issue during the year. The capital return per share is based on the profit on ordinary activities after taxation of £6,342,000 (31 January 2013: £2,132,000 profit) and on 27,572,227 (31 January 2013: 27,624,086) shares, being the weighted average number of shares in issue during the year. The total return per share is based on the total net profit on ordinary activities after taxation of £6,347,000 (31 January 2013: £2,109,000 profit) and on 27,572,227 (31 January 2013: 27,624,086) shares, being the weighted average number of shares in issue during the year. There is no dilutive effect on the return per share for outstanding convertible securities (as explained in note 4) therefore considered to be no difference between the basic and diluted return per share.

9 Investments

	Level 1* Traded on Aim £'000	Level 3* Unquoted investments £'000	Traded on Aim** £'000	Total £'000
Cost as at 1 February 2013	21,725	5,725	251	27,701
Opening unrealised appreciation/(depreciation)	4,060	68	656	4,784
Opening unrealised loss recognised in realised reserve	(921)	(2,430)	-	(3,351)
Opening valuation as at 1 February 2013	24,864	3,363	907	29,134
Movements in the year:				
Reclassification in year	(137)	137	-	-
Purchases	8,077	387	-	8,464
Sales - proceeds	(12,303)	(263)	(907)	(13,473)
Realised gains on sales	1,483	263	-	1,746
Unrealised gains in the year	6,548	(316)	-	6,232
Valuation as at 31 January 2014	28,532	3,571	-	32,103
Cost at 31 January 2014	19,529	4,237	-	23,766
Unrealised appreciation/(depreciation) as at 31 January 2014	10,158	(68)	-	10,090
Closing unrealised loss recognised in realised reserve	(1,155)	(598)	-	(1,753)
Valuation as at 31 January 2014	28,532	3,571	-	32,103
Equity shares	28,532	688	-	29,220
Preference shares	-	344	-	344
Loan stock	-	2,539	-	2,539
Valuation as at 31 January 2014	28,532	3,571	-	32,103

* Refer to note 21 for definitions

** Tikit Group plc, an AIM-traded company, moved from Level 1 to level 3 during the year ended 31 January 2013 when trading was suspended pending a merger. The proceeds of this merger were received on 1 February 2013.

As at 31 January 2014 a further realisation of £542,000 in respect of quoted investments and £179,000 in respect of unquoted investments has been made within the capital reserve in relation to investments included within bookcost at this date. This is included within the £1,753,000 above.

	2014 £'000	2013 £'000
Realised gains/(losses) on disposal	1,746	(494)
Unrealised gains on investments during the year	6,232	3,008
Net return on investments	7,978	2,514

Transaction Costs

During the year the Company incurred transaction costs of £26,000 (31 January 2013: £16,000) and £31,000 (31 January 2013: £19,000) on purchases and sales of investments respectively. These amounts are included in the return on investments as disclosed in the income statement.

10 Debtors

	2014 £'000	2013 £'000
Receivable for investments sold	613	-
Share issue proceeds	452	-
Other debtors	29	-
Prepayments and accrued income	52	98
	1,146	98

11 Creditors: Amounts Falling due within One Year

	2014 £'000	2013 £'000
Trade creditors	-	27
Performance fee payable to the Manager	152	-
Other creditors	240	198
	392	225

12 Performance Fee Provision

	2014 £'000
Opening provision at 1 February	-
Performance fee provided for in year	1,271
Closing provision at 31 January	1,271

A provision of £1,271,000 has been made for a performance fee which will become payable to the Manager on 31 July 2014 if performance is sustained in this six month period, the amount to be paid will decrease in relation to any fall in the NAV Total Return at that date.

13 Called Up Share Capital

Ordinary shares (5p shares)	2014 Number	2014 £'000	2013 Number	2013 £'000
Allotted, issued and fully paid at 1 February	27,289,574	1,364	27,643,668	1,382
Issued during the year	2,198,145	110	2,227,623	111
Repurchase of own shares for cancellation	(1,594,391)	(79)	(2,581,717)	(129)
At 31 January	27,893,328	1,395	27,289,574	1,364

During the year a total of 1,594,391 ordinary shares of 5p each were purchased by the Company at an average price of 105.0p per share.

14 Reserves

	Share capital £'000	Non-distributable reserves Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Distributable reserves Special reserve £'000	Capital reserve# £'000	Revenue reserve £'000	Total reserves £'000
At 1 February 2013	1,364	2,771	1,956	160	26,445	(3,469)	(121)	29,106
Shares issued	110	2,500	-	-	-	-	-	2,610
Share issue expenses	-	(132)	-	-	-	-	-	(132)
Repurchase of shares	(79)	-	-	79	(1,690)	-	-	(1,690)
Dividends paid	-	-	-	-	(1,726)	-	-	(1,726)
Transfer of merger investment disposals	-	-	(634)	-	-	634	-	-
Profit for the year	-	-	-	-	-	6,342	5	6,347
At 31 January 2014	1,395	5,139	1,322	239	23,029	3,507	(116)	34,515

These reserves are not wholly distributable.

At 31 January 2014, the capital reserve constitutes realised losses of £6,583,000 (31 January 2013: £8,254,000) and unrealised investment holding gains of £10,090,000 (31 January 2013: £4,785,000).

Distributable reserves comprise the special reserve, the revenue reserve and the capital reserve excluding investment holding gains. At 31 January 2014, the amount of reserves deemed distributable is £16,330,000 (31 January 2013: £18,070,000).

15 Net Asset Value per Ordinary Share

The calculation of net asset value per share at 31 January 2014 is based on net assets of £34,515,000 (31 January 2013: £29,106,000) divided by the 27,893,328 (31 January 2013: 27,289,574) shares in issue at the year end. There is no dilutive effect on the net asset value per share for outstanding convertible securities (as explained in note 4) therefore there is considered to be no difference between the basic and diluted net asset value per share.

16 Analysis of Changes in Cash

	2014 £'000	2013 £'000
At 1 February	99	1,332
Increase/(decrease) in cash	2,830	(1,233)
At 31 January	2,929	99

17 Reconciliation of Profit on Ordinary Activities Before Taxation to Net Cash Outflow from Operating Activities

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation	6,347	2,110
Net return on investments	(7,978)	(2,514)
Increase/(decrease) in creditors, excluding corporation tax payable	1,462	(4)
Decrease in debtors	28	23
Income reinvested	(28)	-
Net cash outflow from operating activities	(169)	(385)

18 Significant Interests

The Company has the following significant interests (amounting to an investment of 3% or more of the equity capital of an undertaking):

	Nominal	% held
Sportsweb.com	58,688	11.4%
Universe Group plc	12,500,970	5.9%
Sabien Technology Group plc	1,551,426	4.9%
Paragon Entertainment Limited	8,431,300	4.5%
Rosslyn Analytics Limited Preference Shares	86,741	4.2%
Brookwell Limited Redeemable Preference Shares	205,371	3.8%
Water Intelligence plc	395,084	3.7%
TLA Worldwide plc	2,877,000	3.3%
MyCelx Technologies Corporation	194,470	3.2%
Antenova Limited A Preference Shares	1,275,166	3.1%
Antenova Limited	2,181,435	3.0%

19 Material Disposals of Unquoted Investments

At 31 January 2013 the Company held 1,616,786 shares in Lilestone Holdings Limited at a cost and value of £nil. During the year the Company fully disposed of this investment for proceeds of £263,000.

20 Post Balance Sheet Events

The following transactions have taken place between 31 January 2014 and the date of this report:

892,088 shares were allotted raising net proceeds of £1.17m.

21 Financial Instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy to invest in qualifying investments predominantly in AIM traded companies or companies to be traded on AIM.

21 Financial Instruments (continued)

Classification of financial instruments

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

	2014 (Book value) £'000	2014 (Fair value) £'000	2013 (Book value) £'000	2013 (Fair value) £'000
Assets at fair value through profit and loss				
Investment portfolio	32,103	32,103	29,134	29,134
Assets measured at amortised cost				
Receivable for investments sold	613	613	-	-
Receivable for share issue proceeds	452	452	-	-
Accrued income and other debtors	81	81	98	98
Cash at bank	2,929	2,929	99	99
Liabilities measured at amortised cost				
Accrued expenses	(392)	(392)	(225)	(225)
Total for financial instruments	35,786	35,786	29,106	29,106

Fixed asset investments (see note 9) are measured at fair value. For quoted securities this is generally the bid price or, in the case of SETS securities, the closing price. In respect of unquoted investments, these are valued by the directors using rules consistent with IPEV guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

In order to provide further information on the valuation techniques used to measure assets carried at fair value, the measurement basis has been categorised into a "fair value hierarchy" as follows:

– Quoted market prices in active markets – "Level 1"

Inputs to Level 1 fair values are quoted prices in active markets. An active market is one in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The Company's investments classified within this category are AIM traded companies, fully listed companies and ISDX traded companies.

– Valued using models with significant observable market parameters – "Level 2"

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

– Valued using models with significant unobservable market parameters – "Level 3"

Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset. The Company's investments in unquoted equities, preference shares and loan stock are classified within this category. As explained in note 1, unquoted investments are valued in accordance with the International Private Equity and Venture

Capital Association ("IPEV") guidelines. Changing one or more inputs for Level 3 assets would not have a significant impact on the valuation. For example, earnings multiple calculations are used to value some unquoted equity holdings. These multiples are derived from a basket of comparable quoted companies, with appropriate discounts applied. These discounts are subjective and based on the Manager's experience.

Financial assets at fair value

At 31 January 2014

	Year ended 31 January 2014			Year ended 31 January 2013		
	Level 1 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 3 £'000	Total £'000
Equity shares	28,532	688	29,220	24,755	1,534	26,289
Preference shares	-	344	344	109	233	342
Loan stock	-	2,539	2,539	-	2,503	2,503
	28,532	3,571	32,103	24,864	4,270	29,134

Level 3 financial assets at fair value

At 31 January 2014

	Year ended 31 January 2014				Year ended 31 January 2013			
	Equity shares £'000	Preference shares £'000	Loan stock £'000	Total £'000	Equity shares £'000	Preference shares £'000	Loan stock £'000	Total £'000
Opening balance at 1 February 2013	1,534	233	2,503	4,270	1,081	100	1,229	2,410
Transfers to/(from) Level 3 (see details below)	-	137	-	137	708	-	-	708
Purchases	122	265	-	387	310	-	1,461	1,771
Disposal proceeds	(1,170)	-	-	(1,170)	(842)	-	-	(842)
Total net gains/(losses) recognised in the income statement	202	(291)	36	(53)	277	133	(187)	223
Closing balance at 31 January 2014	688	344	2,539	3,571	1,534	233	2,503	4,270

During the year Brookwell moved from Level 1 to Level 3 when the Company was delisted on approval of a voluntary winding up in order to achieve a managed realisation of remaining assets.

22 Market Risk

Market risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding positions in the face of market investments.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined on page 19. The management of market risk is part of the investment management process. The Board seeks to mitigate the internal risks by setting policy, regular reviews of performance, enforcement of contractual obligations and monitoring progress and compliance with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM traded companies, by their nature, involve a higher degree of risk than investments in the main market.

22 Market Risk (continued)

Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investments at the balance sheet date are disclosed in the Investment Portfolio on pages 10 to 12.

As at 31 January 2014 88.9% (31 January 2013: 88.5%) of the Company's investments are traded on AIM or fully listed. A 10% increase in stock prices as at 31 January 2014 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £2,853,000 (31 January 2013: £2,577,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

As at 31 January 2014 11.1% (31 January 2013: 11.5%) of the Company's investments are in unquoted companies held at fair value. A 10% increase in the valuations of unquoted investments at 31 January 2014 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £357,000 (31 January 2013: £336,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

23 Interest Rate Risk

Fixed rate

Five of the Company's financial assets are interest bearing at a fixed rate. As a result, the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates, however the impact of a reasonable movement in interest rates would not be significant to the net assets and profit for the year.

The total current market value of these stocks is £2,539,000 (31 January 2013: £2,503,000), the weighted average interest rate is 7.0% (31 January 2013: 9.4%) and the average period to maturity is 2.99 years.

Details of the Company's investments at the balance sheet date are provided on pages 10 to 12.

24 Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amount of financial assets best represents the maximum credit risk exposure at the balance sheet date. At 31 January 2014, the financial assets exposed to credit risk, representing convertible loan stock instruments, amounts due from brokers, accrued income and cash amounted to £6,573,000 (31 January 2013: £2,658,000). The convertible loans in China Food Company plc and Sorbic International plc are secured over the buildings and land use rights of the companies.

Credit risk on the unquoted loan stock held within unlisted investments is also considered to be part of market risk as the value of the loan stock is influenced in part by the price of the underlying equity.

The loan stock investments in the table below are considered past due, but not individually impaired, because it is believed that the loan is fully recoverable.

	0-6 Months £'000	Total 2014 £'000	0-6 Months £'000	Total 2013 £'000
Loan stock past due	906	906	328	328

Interest of £38,000 was due to the Company at 31 January 2014 from Polyhedra Group plc, however this was received on 12 February 2014.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved, the high credit quality of the brokers used and the fact that almost all transactions are on a 'delivery versus payment' basis. The Manager monitors the quality of service provided by the brokers used to further mitigate this risk.

All the assets of the Company which are traded on AIM are held by Bank of New York Nominees, the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

At 31 January 2014, cash held by the Company was held by The Bank of New York and UBS. Bankruptcy or insolvency of the institutions may cause the Company's rights with respect to the cash held by it to be delayed or limited. Should the credit quality or the financial position of the institutions deteriorate significantly the Company has the ability to move the cash at short notice.

There were no significant concentrations of credit risk to counterparties at 31 January 2014 or 31 January 2013.

25 Liquidity Risk

The Company's financial instruments include investments in unlisted equity investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. The proportion of the portfolio invested in unlisted equity investments is not considered significant given the amount of investments in readily realisable securities.

The Company's liquidity risk is managed on an ongoing basis by the Manager in accordance with policies and procedures in place as described in the Strategic Report on page 23. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 January 2014, these investments were valued at £7,732,000 (31 January 2013: £4,280,000). The directors consider that frequently traded AIM investments with a market capitalisation of greater than £200m represent readily realisable securities.

26 Capital Management Policies and Procedures

The Company's capital management objectives are:

- to ensure that it will be able to continue as a going concern;
- to satisfy the relevant HMRC requirements; and
- to maximise the income and capital return to its shareholders.

As a VCT, the Company must have, within 3 years of raising its capital, at least 70% by value of its investments in VCT qualifying holdings, which are relatively high risk UK smaller companies. In satisfying this requirement, the Company's capital management scope is restricted. The Company does have the option of maintaining or adjusting its capital structure by varying dividends, returning capital to shareholders, issuing new shares or selling assets to maintain a certain level of liquidity. There has been no change in the objectives, policies or processes for managing capital from the previous year.

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the need to buy back equity shares for cancellation, which takes account of the difference between the net asset value per share and the share price (ie the premium or discount);
- the need for new issues of shares; and
- the extent to which revenue in excess of that which is to be distributed should be retained.

Notice is hereby given that the Annual General Meeting of Amati VCT 2 plc (the "Company") will be held on Thursday 26 June 2014 at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 8DT at 10.15am (the "Meeting") for the transaction of the following business:

Ordinary Business

To consider, and if thought fit, to pass the following Resolutions 1 to 10 as Ordinary Resolutions of the Company:

Ordinary Resolutions

1. To receive and adopt the Directors' Report and financial statements of the Company for the financial year ended 31 January 2014 together with the Independent Auditor's Report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 January 2014.
4. To approve a final dividend of 4p per share payable on 25 July 2014 to shareholders on the register at 4 July 2014.
5. To re-appoint BDO LLP of 55 Baker Street, London W1U 7EU as auditor of the Company from the conclusion of the Meeting until the conclusion of the next annual general meeting of the Company to be held in 2015 at which financial statements are laid before the Company.
6. To authorise the directors to fix the remuneration of the auditor.
7. To re-elect Julian Avery as a director of the Company.
8. To re-elect Mike Killingley as a director of the Company.
9. To re-elect Christopher Macdonald as a director of the Company.
10. To re-elect Christopher Moorsom, as a director of the Company.

Special Business

To consider, and if thought fit, to pass the following Resolutions as Special Resolutions of the Company:

Special Resolutions

11. To approve the new Articles of Association of the Company to extend the life of the Company to 2020.
12. THAT in substitution for any existing authorities, the directors be and hereby are empowered pursuant to sections 570 and 573 of the 2006 Act to allot or make offers or agreements to allot equity securities (which expression shall have the meaning subscribed to it in section 560 of the 2006 Act) for cash pursuant to the authority given in accordance with section 551 of the 2006 Act by the resolution passed at the general meeting on 7 March 2013 as if section 561(1) of the 2006 Act did not apply to any such allotment, up to an aggregate nominal amount of £1,250,000. The authority hereby conferred shall (unless previously renewed or revoked) by this resolution shall expire on the earlier of the date of the annual general meeting of the Company to be held in 2015 and the date which is 15 months after the date on which this resolution is passed.
13. THAT, in substitution for existing authorities, the Company be and is hereby empowered to make one or more market purchases within the meaning of Section 701 of CA 2006, of the Ordinary Shares (either for cancellation or for the retention of treasury shares for future re-issue or transfer) provided that:
    (i) the maximum aggregate number of Ordinary Shares authorised to be purchased is such number thereof being 14.99% of the issued ordinary share capital of the Company as at the date of this resolution;
    (ii) the minimum price which may be paid per Ordinary Share is 5p per share, the nominal amount thereof;
    (iii) the maximum price (exclusive of expenses) which may be paid per Ordinary Share is an amount equal to 105% of the average of the middle market quotation of such Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Share is to be purchased;

(iv) the authority hereby conferred shall expire on the earlier of the annual general meeting of the Company to be held in 2015 and the date which is 18 months after the date on which this Resolution is passed; and

(v) the Company may make a contract to purchase its own Ordinary Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority, and may make a purchase of such Ordinary Shares pursuant to any such contract.

By order of the Board

The City Partnership (UK) Limited
Secretary

Registered office:
27/28 Eastcastle Street
London W1W 8DH

16 April 2014

Notes

1. A member entitled to attend and vote at the Meeting convened by the above Notice is entitled to appoint one or more proxies to attend and, on a poll, to vote in his place. A proxy need not be a member of the Company.
2. To appoint a proxy you may use the Form of Proxy enclosed with this Notice of Annual General Meeting. To be valid, the Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of the same, must be deposited by 10.15am on 24 June 2014 to The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF. Completion of the Form of Proxy will not prevent you from attending and voting in person.
3. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company on 24 June 2014 (48 hours before the time appointed for the Meeting) shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned Meeting is 48 hours before the time appointed for the adjourned Meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
4. You may appoint more than one proxy provided 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 should photocopy the proxy form. Please indicate in the box next to the proxy holder's name the number of securities 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.

   A reply paid form of proxy is enclosed with members' copies of this document. To be valid, it should be lodged with the Company's registrars, The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF so as to be received not later than 48 hours before the time appointed for the Meeting or 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.
5. As at 15 April 2014 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 28,448,138 shares of 5p each, carrying one vote each at an annual general meeting of the Company. Therefore, the total voting rights in the Company as at 15 April 2014 are 28,448,138.
6. Appointment of a proxy will not preclude a member from subsequently attending, voting and speaking 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 proxy form.
7. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "**Nominated Person**") may, under an agreement between the Nominated Person 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.
8. The statement of the rights of members in relation to the appointment of proxies in paragraphs 3 to 5 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by members of the Company.
9. The Register of Directors' Interests will be available for inspection at the Meeting.
10. Except as provided above, members who have general queries about the Meeting should use the following means of communication (no other methods of communication will be accepted);
    - Calling Doreen Nic on 0131 243 7210 or
    - Emailing vct-enquiries@amatiglobal.com
11. You may not use any electronic address provided either in this notice of Meeting or any related documents (including the chairman's letter and proxy form) to communicate with the Company for any purpose other than those expressly stated.

Share Price

The Company's shares are listed on the London Stock Exchange. The mid-price of the Company's shares is given daily in the Financial Times in the Investment Companies section of the London Share Service.

Net Asset Value per Share

The Company's net asset value per share as at 31 January 2014 was 123.7p. The Company normally announces its net asset value on a weekly basis. Net asset value per share information can be found on the Amati Global Investors' website: http://www.amatiglobal.com/avct2.php

Dividends

Shareholders who wish to have future dividends reinvested in the Company's shares or wish to have dividends paid directly into their bank account rather than sent by cheque to their registered address should contact The City Partnership (UK) Limited by telephone on 0131 243 7210 or in writing to The City Partnership (UK) Limited, Thistle House, 21 Thistle Street, Edinburgh EH2 1DF.

Financial Calendar

April 2014	Annual report for the year ended 31 January 2014 to be circulated to shareholders
June 2014	Interim management statement released
June 2014	Annual General Meeting
September 2014	Half-yearly Report for the six months ending 31 July 2014 to be circulated to shareholders
November 2014	Interim management statement released
31 January 2015	Year-end

Annual General Meeting

The Annual General Meeting of the Company will be held on Thursday 26 June 2014 at 10.15am at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 8DT. The notice of the meeting, together with the enclosed proxy form, is included on pages 59 and 60 of this report.

AMATI VCT 2 PLC – FORM OF PROXY

For the Annual General Meeting on 26 June 2014

I/We ____

(block capitals please)

of ____

being a member of Amati VCT 2 plc, hereby appoint (see notes 1 and 2)

____

of ____

or failing him/her the chairman of the meeting to be my/our proxy and exercise all or any of my/our rights to attend, speak and vote for me/us in respect of my/our voting entitlement on my/our behalf at the Annual General Meeting of the Company to be held at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 8DT on Thursday 26 June 2014 at 10.15am, notice of which was dated 16 April 2014, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolution set out in the notice of meeting:

Please indicate by placing an X in this box if this proxy appointment is one of multiple appointments being made (see note 2 below). ☐

Ordinary Business

Ordinary Resolutions

		For	Against	Vote Withheld
1	To receive the Directors Report and Financial Statements together with the Independent Auditor's Report	☐	☐	☐
2	To approve the Directors' Remuneration Policy	☐	☐	☐
3	To approve the Director's Annual Report on Remuneration	☐	☐	☐
4	To approve a final dividend	☐	☐	☐
5	To re-appoint BDO LLP as auditor	☐	☐	☐
6	To authorise the directors to fix the remuneration of the auditor	☐	☐	☐
7	To re-elect Julian Avery as a director of the Company	☐	☐	☐
8	To re-elect Mike Killingley as a director of the Company	☐	☐	☐
9	To re-elect Christopher Macdonald as a director of the Company	☐	☐	☐
10	To re-elect Christopher Moorsom as a director of the Company	☐	☐	☐

Special Business

Special Resolutions

		For	Against	Vote Withheld
11	To approve the new Articles of Association	☐	☐	☐
12	To renew the directors' authority to disapply pre-emption rights	☐	☐	☐
13	To authorise the directors to buy back shares	☐	☐	☐

Please refer to the notes overleaf

Attendance indication

Shareholders who intend to attend the Annual General Meeting and Investor Event are requested to place a tick in the box below in order to assist with administrative arrangements.

I/we intend to attend the Annual General Meeting at Milton Court Theatre, Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 8DT on Thursday 26 June 2014 at 10.15am. ☐

Signed: ____________________ Dated: ____________ 2014

NOTES RELATING TO FORM TO PROXY

1. Every member has the right to appoint some other person(s) of his/her choice, who need not be a member, as his/her proxy to exercise all or any of his/her rights to attend, speak or vote on his/her behalf at the meeting. A member wishing to appoint a person other than the chairman of the meeting as proxy should insert the name of such person in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter alongside the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Any alteration or deletion must be signed or initialled.
2. A member may appoint more than one proxy in relation to a meeting, provided that the proxy is appointed to exercise the rights attached to a different share or shares held by him/her. To appoint more than one proxy, please contact The City Partnership (UK) Limited on 0131 243 7210 for (an) additional form(s), or you may photocopy this form. Please indicate alongside the proxy holder's name the number of shares in relation to which the proxy holder is authorised to act as your proxy. Please also indicate by placing an X in 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.
3. Use of the form of proxy does not preclude a member from attending and voting in person.
4. Where the form of proxy is executed by an individual it must be signed by that individual or his or her attorney.
5. Where the form of proxy is executed by joint shareholders it may be signed by any of the members, but the vote of the member whose name stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.
6. Where the form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
7. If the form of proxy is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes, as he/she will on any other matters to arise at the meeting.
8. To be valid, the form of proxy, together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be sent or delivered to The City Partnership (UK) Limited at Thistle House, 21 Thistle Street, Edinburgh EH2 1DF or by fax to 01252 719232 or by scan and email to proxies@shareregistrars.uk.com to be received no later than 10.15am on 24 June 2014.
9. The "vote withheld" option is provided to enable a member to abstain from voting on the resolution; however, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "for" and "against" the resolution.

CORPORATE INFORMATION

Directors
Julian Ralph Avery
Mike Sedley Killingley
Christopher Antony James Macdonald
Christopher John Leon Moorsom

all of:
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W1W 8DH

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EH2 1DF
Telephone: 0131 2437210
Email: vct-enquiries@amatiglobal.com

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VCT Tax Adviser
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WC2N 6RH

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GU9 7LL

Auditor
BDO LLP
55 Baker Street
London
W1H 7EH

Solicitors
Nimmo W.S.
8 Walker Street
Edinburgh
EH3 7LH

Bankers
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London Branch
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London
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18 Charlotte Square Edinburgh EH2 4DF Tel: 0131 503 9100