

Amati VCT 2 plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 31 January 2018

Company Registration Number: 04138683



Amati
Global Investors

Finely crafted investments

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If you have sold or otherwise transferred all of your shares in Amati VCT 2 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Highlights

For the year ended 31 January 2018

- > NAV Total Return for the year 45.2%.
- > Year end NAV 170.70p.
- > The directors propose a second interim dividend of 5.25p per share bringing the total declared in respect of the year to 8.5p which is 5% of year end NAV.
- > £5.4m invested in qualifying holdings during the year.
- > The Prospectus Offer launched on 27 October 2017 jointly with Amati VCT plc was fully subscribed and has raised £10 million for the Company as at 5 April 2018.
- > Papers proposing a merger of the Company and Amati VCT plc were sent to shareholders in March of this year.

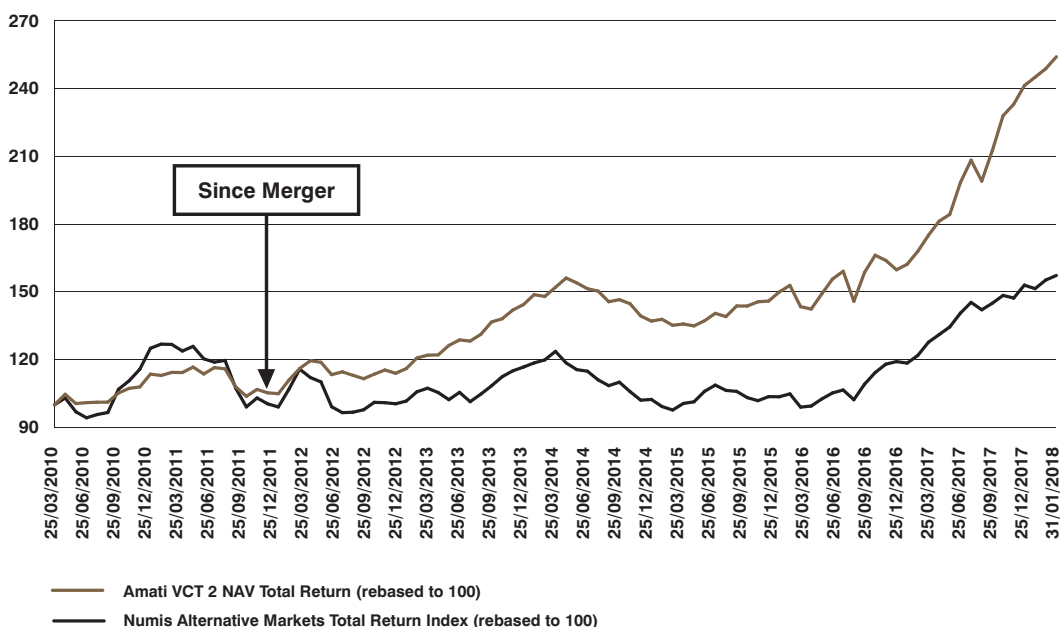
Table of investor returns to 31 January 2018

| From | Date | NAV Total Return with dividends reinvested | Numis Alternative Markets Total Return Index |
|---|------------------|--|--|
| Re-launch as Amati VCT 2 following merger | 9 November 2011* | 137.8% | 52.2% |
| Appointment of Amati Global Investors ("Amati") as Manager of Amati VCT 2, which was known as ViCTory VCT at the time | 25 March 2010 | 149.5% | 56.4% |

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

Amati VCT 2 NAV Total Return and Numis Alternative Markets Total Return Index from change of Manager on 25 March 2010 to 31 January 2018

See next page for graph of performance since launch.



Overview

(continued)

Key data

| | 31/01/18 | 31/01/17 |
|--|------------|------------|
| Net Asset Value ("NAV") | £61.6m | £40.4m |
| Shares in issue | 36,057,095 | 32,643,069 |
| NAV per share | 170.7p | 123.7p |
| Bid price | 157.0p | 115.5p |
| Mid price | 157.5p | 115.8p |
| Market capitalisation | £56.8m | £37.8m |
| Share price discount to NAV | 7.7% | 6.4% |
| NAV Total Return for the year (assuming re-invested dividends) | 45.2% | 22.0% |
| Numis Alternative Markets Total Return Index | 23.2% | 29.0% |
| Ongoing charges* | 2.3% | 2.6% |
| Dividends paid and proposed in respect of the year | 8.50p | 7.00p |

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

Dividends declared and recommended since the re-launch following the merger

| Year ended 31 January | Total dividends per share p | Cumulative dividends per share p |
|-----------------------|-----------------------------|----------------------------------|
| 2011 | 4.74 | 4.74 |
| 2012 | 5.50 | 10.24 |
| 2013 | 6.00 | 16.24 |
| 2014 | 6.75 | 22.99 |
| 2015 | 6.25 | 29.24 |
| 2016 | 6.25 | 35.49 |
| 2017 | 7.00 | 42.49 |
| 2018 | 8.50 | 50.99 |

Historic performance

Amati VCT 2 NAV Total Return assuming re-invested dividends and Numis Alternative Markets Total Return Index:

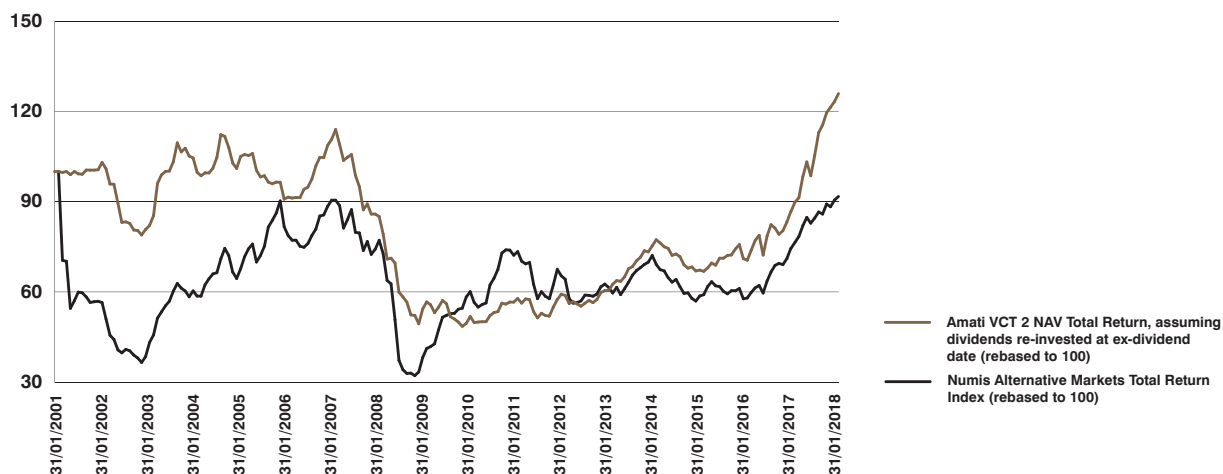


Table of Historic Returns from launch to 31 January 2018 attributable to shares issued by VCTs which have been merged into Amati VCT 2

| | Launch date | Merger date | NAV Total Return with dividends re-invested | Numis Alternative Markets Total Return Index |
|--|-------------------|------------------|---|--|
| Singer & Friedlander AIM 3 VCT ('C' shares) | 4 April 2005 | 8 December 2005 | 38.0% | 27.7% |
| Invesco Perpetual AiM VCT | 30 July 2004 | 8 November 2011 | 22.2% | 56.5% |
| Amati VCT 2 (originally Singer & Friedlander AIM 3 VCT*) | 29 January 2001 | n/a | 25.9% | -8.3% |
| Singer & Friedlander AIM 2 VCT | 29 February 2000 | 22 February 2006 | -3.6% | -53.2% |
| Singer & Friedlander AIM VCT | 28 September 1998 | 22 February 2006 | -34.2% | 42.4% |

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

Chairman's Statement

The purpose of this report is to inform shareholders and help them to assess how the directors have performed in their duty to promote the success of the Company. This report has been prepared by the directors in accordance with the requirements of Section 414A of the Companies Act 2006.

Overview

In successive reports over the last few years I have outlined the ways in which the investment strategy adopted by the Company has become more simplified and focused. As noted in the last Interim Report, the Manager seeks to identify the best of the next generation of AIM companies, to provide those companies with valuable early stage capital, and to support them as long-term shareholders. To the extent that these holdings are held for the long term, the most successful come to dominate the portfolio as they rise in value and grow to become substantial and significant companies. This trend towards concentration and maturity has increased each year over the last five years. Over the last year I am pleased to say that, against the backdrop of a generally strong AIM market, this strategy has produced what is probably the best annual performance that the Company has experienced in its history.

In addition, it is pleasing to note that after the relative dearth of qualifying deals completed after the major changes to the VCT legislation in November 2015, the Company's rate of new investment has also risen significantly during the year, especially in the second half. In the prior financial year the Company invested £2.2m in qualifying deals. In the year under review we invested a total of £5.4m, of which £3.6m (i.e. two thirds) was invested in the second half. Whilst, in part, this reflects the increased size of the Company following recent strong performance and therefore our propensity to apply for larger amounts of stock than we would have done previously, it also demonstrates an increased availability of qualifying investments of suitable quality, suggesting that the market has reached a working accommodation with the new legislative framework. Inevitably new investments will always be in companies which are much less mature, and therefore riskier, than the bulk of the long-standing holdings in the fund, but they are also important both for the ongoing functioning of the Company as a VCT, and for providing the next generation of companies to support the long term performance of the portfolio. Generally speaking, the Manager is seeking to take a three to five year view on the maturation of these businesses from the point of investment.

Other Corporate Developments

In the first half of the year under review, the Company completed a series of joint top up Share Issues with Amati VCT plc (launched in October 2016), which were fully subscribed before the closing date in July. Then in October of 2017 the Company launched a Joint

Prospectus Share Offer together with Amati VCT plc to raise up to £20m, split by £10m in each VCT. The offer was fully subscribed at 5 April 2018 and £10m was raised for the Company.

The Prospectus also noted the directors' wish to bring forward merger proposals, subject to the clarification of a paragraph in the VCT legislation which could have inadvertently penalised some shareholders. Amendments to the relevant legislation addressing this issue were announced in the Autumn Budget and enacted in March 2018. The Boards of both VCTs subsequently sent out merger proposals to both sets of shareholders in March in a Circular, including a proposal that the newly merged company would adopt the name of Amati AIM VCT plc. Under these proposals the combined company would not only have assets valued, at the time of writing, at over £130m, but also one of the lowest ongoing charges ratios amongst comparable VCTs. It will, I believe, be strategically very well placed for the future, with a good balance between long-standing mature holdings and exciting but riskier new ones.

The Prospectus also allowed for a £10m over-allotment option conditional upon the completion of the merger. The Board of the combined company will consider to what extent this might be used over the following months based on the availability of new investment opportunities.

In the Circular, shareholders of both VCTs were asked to vote on the proposed merger at general meetings to take place on 26 April 2018. Shareholders of the Company were also asked to vote on a resolution to cancel the Company's entire share premium account as at the date of the hearing before the High Court at which final confirmation is sought. The purpose of the share premium cancellation is to credit a distributable reserve available for distribution for any purpose for which it is able to be applied, including buying back shares, writing off losses and the payment of dividends.

Assuming that the merger proceeds as planned, I plan to retire as Chairman of the Company and I will step down from the Board at the beginning of May. The directors will appoint Peter Lawrence, Julia Henderson and Brian Scouler, all of whom are current directors of Amati VCT plc, to the Board, with Peter serving as Chairman. It has been a privilege to have served the Company, in its various guises, over the last 14 years and I wish Peter and the new Board continued success in the future.

Chairman's Statement

(continued)

Investment Performance and Dividend

The NAV Total Return for the year was 45.2%, which compares to a rise of 23.2% for the Numis Alternative Markets Total Return Index, with roughly half of this performance coming in the first half of the year.

For some years the dividend policy of the Company has been to pay between five and six percent of year-end net asset value, subject to the availability of liquidity and sufficient distributable reserves. At 31 January 2018 the net asset value was 170.70p per share. Due to the impending general meetings and vote for a merger of Amati VCT plc and Amati VCT 2 plc, at the time of signing of this annual report it is not certain whether a dividend being paid by the Company will be for the enlarged company, or the Company in its current form. The directors are proposing payment of a second interim dividend of 5.25p per share payable on 27 July 2018 to shareholders on the register on 22 June 2018, the payment of which, as always, will be subject to ensuring that the Company has sufficient distributable reserves at the time of payment.

VCT Legislation

This was another important year for the evolution of the tax advantaged investment schemes (both VCT and EIS). HM Treasury conducted the Patient Capital Review, and this sparked extensive dialogue between officials and managers. Both the Board and the Manager see the result as being very positive for both schemes, insofar as they are aimed at providing capital to the kind of early stage growth companies which will underpin the future success of the UK economy. It should result in severely limiting the practice of creating qualifying investments aimed mainly at "capital preservation", a practice which has diverted funds away from the core purpose of the schemes in the past. With this in mind, a new "Risk to Capital" condition has been introduced as an additional test for qualifying holdings. We regard this as an elegant solution to a difficult problem. It should be effective without adding yet more complexity for those not seeking to follow a "capital preservation" strategy. Elsewhere, we were very pleased to note that the £5m annual limit of funds that can be raised from tax advantaged sources collectively has been increased to £10m for "knowledge intensive companies". As many of the companies in which we invest meet the definition of "knowledge intensive", this potentially creates significant additional capacity for the Amati VCTs to make new qualifying investments.

Outlook

Essentially this is unchanged from the Interim Report, where I noted that it is always important to remain realistic about expectations following periods of very strong performance. Markets have a tendency towards mean reversion, with periods of above average returns being followed by periods of below average returns in ways that are extremely difficult to predict. However, the very real progress being made by many of our portfolio companies continues and creates a strong platform for further growth, even in tougher times. We expect that an increased rate of new investment opportunities will continue and a successful fund raising under the Prospectus will enable the Company to take advantage of these as and when they arise. Meantime, our increasingly mature portfolio is well placed to continue making progress.

AGM

The AGM will again be held at the Guildhall School of Music and Drama, starting at 2.00 p.m. on Wednesday 27 June 2018 at Milton Court, Guildhall School of Music and Drama, Silk Street, Barbican, London, EC2Y 9BH (the entrance is on the corner of Milton Street and Silk Street). This will be followed by further events and presentations, including the fifth Amati Guildhall Creative Entrepreneurs Award, to which shareholders are invited, details of which are being sent to you with this report. I do hope that as many shareholders as possible will be able to join us. Please RSVP to info@amatiglobal.com if you would like to attend.

Julian Avery
Chairman

18 April 2018

For any matters relating to your shareholding in the Company, dividend payments, or the Dividend Reinvestment Scheme, please contact Share Registrars on 01252 821390, or by email at enquiries@shareregistrars.uk.com. For any other matters please contact Amati Global Investors ("Amati") on 0131 503 9115 or by email at info@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.

Fund Manager's Review

Market Review

The UK stock market continued where it left off in 2016 with another year of strong gains, this time interrupted by just one major political surprise – the snap UK General Election, which led to the Conservative party losing its majority to a resurgent Labour Party. Initially equity markets reacted to this shock with heavy falls, however, much like after the Brexit referendum and vote for Trump, they soon regained their composure and ended the year up strongly.

In a reversal of the pattern of 2016, small and mid-cap indices outperformed the FTSE 100 in 2017. However, aggregate earnings growth in the FTSE 100 was higher than the smaller indices. Earnings growth in 2017 was led by the Oil and Gas and Basic Resources industry sectors, driven by almost universal gains in commodity prices. As these two sectors account for over 25% of the FTSE 100 by market capitalisation, their fortunes will have a material bearing on the direction of the index as a whole. The natural resources sectors are less influential in the small and mid-cap indices. The Alternative Investment Market (“AIM”) had another strong year, outperforming all of the Full List indices, reflecting its growing maturity, the success of its largest constituents and the demand for AIM stocks for inheritance tax planning.

For another year, stock market gains appeared against a backdrop of low volatility, best gauged by the Cboe Volatility Index (the “VIX”), which was range bound through much of the year between a low of 9 and a high of 16. However, the index hit 37 just after the year end on 5 February 2018 as inflation fears and expectations of interest rate rises sent markets sharply lower. To put this into context the VIX reached its highest ever level of 89.5 during the 2008 financial crisis.

Providing further evidence of the lack of correlation between economic performance and stock market performance, whilst UK markets reached new highs, UK growth was lagging, certainly relative to a resurgent Eurozone, where growth is at a 10-year high after a successful quantitative easing programme. Similarly, robust consumer and business sentiment underpinned strong US progress and above-target growth in both China and Japan completed the picture of a rosy global economy in 2017 and moving into 2018.

Performance

The Company returned a Net Asset Value total return of 45.2% for the year to 31 January 2018. The Numis Alternative Markets Total Return Index returned 23.2% over the same period.

The most significant contributor to performance was **Frontier Developments** (“Frontier”), the video games development company, which gained 390% over the year. The notable catalyst was the announcement of

Frontier's third self-published franchise – *Jurassic World Evolution*. The game will be launched in summer 2018 and will be based on Universal Pictures' 2015 *Jurassic World*, one of the highest grossing cinema releases of all time. The video game will be released on PC, PlayStation 4 and Xbox One formats and the launch will coincide with the release of the next chapter of the Jurassic film franchise. Another milestone for Frontier was a £17.7 million strategic investment by Tencent, the Chinese internet giant. Tencent has invested in several innovative and successful game developers and publishers and the partnership should accelerate Frontier's access to the Chinese market. Frontier's other self-published titles continue to trade well. *Elite Dangerous* was released on PlayStation 4 in June 2017; and *Planet Coaster* is benefiting from multiple launches of paid downloadable content (PDLC), which offers players 'add on' products to the core game.

Keywords Studios (“Keywords”), the provider of outsourced services to video games publishers, rose 176% during the period. The company continued to post strong revenue growth and continued its earnings accretive acquisition policy. Over the course of the year, Keywords bought nine companies including two of the group's largest deals to date: VMC, a provider of video games testing and customer support; and Sperasoft, a Californian provider of game development, art creation and software engineering services to the video games industry. Keywords has a disciplined process for acquiring and integrating businesses and, despite strong underlying growth, acquisition activity remains a core component of the group's ambition to become the 'go to' supplier of technical services to the global video games industry. The group now consists of seven globally managed service lines operating from 42 production studios in 20 countries. Despite Keywords' rapid growth since its Initial Public Offering (“IPO”) in 2013, market share remains low in a highly fragmented market.

Accesso Technology Group (“Accesso”), the supplier of technologies to theme parks and visitor attractions, enjoyed another year of impressive progress and the shares responded with a gain of 46%. The major events for Accesso were the acquisitions of Ingresso Group, which has designed a distribution system for entertainment ticketing, and TE2, a customer experience management software engine that allows leisure, entertainment and retail enterprises to offer highly personalised guest experiences. Alongside these acquisitions, the core business has outperformed expectations and the group recently upgraded profit expectations. **Learning Technologies Group** (“LTG”), the provider of e-learning services and technologies, is also worthy of mention following a share price gain of 83% over the year. Early in the period under review, LTG completed the acquisition of NetDimensions, an AIM-listed talent management software platform provider. The combination of businesses has completed the range of capabilities that can be offered to clients, expanded

Fund Manager's Review

(continued)

geographic reach and broadened the group's sector exposure into areas such as financial services, defence and government. Other significant contributors to performance over the year were: the **TB Amati Smaller Companies Fund**, which returned 33%; **Ideagen**, the governance, risk and compliance software business serving highly regulated industries, gained 81% over the year; and **Tristel**, the designer and manufacturer of infection and contamination control products based on a chlorine dioxide formulation, ended the year up 70%.

The most disappointing performer was **Idox**, the software application provider to UK local authorities and engineering businesses, which declined by 50%. Idox first warned on difficult trading in November, blaming customer disruption in the wake of June's General Election. This announcement was followed shortly afterwards by a further update which disclosed the identification of revenue recognition errors. The result was a reduction in anticipated profits and market nervousness around the systems and controls within the organisation that enabled this scenario to arise. The same announcement confirmed the absence of the CEO owing to sick leave. He has been replaced on an interim basis by Richard Kellett-Clark, the company's former CEO and current Non-Executive Director. **Tasty**, the operator of the Wildwood brand of casual dining restaurants, succumbed to the general malaise afflicting the UK restaurant sector. Tasty fell 86% over the year as it announced difficult trading conditions and a plan to close several sites. Other disappointing performers were: **Universe Group**, the supplier of technology solutions for petrol forecourt and convenience store markets, which declined by 29% after contract delays led to profit downgrades; **FreeAgent Holdings** ("FreeAgent"), the accountancy software provider to sole traders, which fell 45% after reporting a slowdown in core revenue growth; and **SRT Marine Systems**, the maritime location systems designer, which fell 29%, following downgrades to anticipated sales.

Transactions

It was a busy year for qualifying deals. The number of investment opportunities increased relative to 2016, when we witnessed a sharp drop off in deals following changes to the VCT rules in 2015. Pleasingly, the quality of opportunities was also strong, the result being that we completed a higher proportion of deals 'screened' than normal.

The Company invested a total of £5.4 million in four IPOs, four fundraisings by businesses already AIM quoted but not previously held by the Company, and six 'follow-on' investments in existing VCT holdings.

The first of the IPOs was **Escape Hunt**, a specialist in the fast growing 'escape game' concept, where small groups are challenged to escape from a themed room by solving a sequence of puzzles. Escape Hunt is

targeting premium, city centre sites with high footfall and access to corporate customers as it seeks to position itself as the pre-eminent brand for escape games. The second IPO was **Velocity Composites** ("Velocity"), a supplier of precision engineered materials to aircraft component manufacturers. Velocity has established itself as a key part in the aircraft supply chain. The key activity of Velocity revolves around the shaping of carbon fibre composite materials (sourced from suppliers such as 3M) to produce kits for sale to component manufacturers such as Airbus, BAE Systems and Meggitt. This removes a complex but critical step in the supply chain for the component manufacturers, improving their productivity and reducing capital spend. Aircraft platforms have 20 year plus life-spans, giving Velocity strong revenue visibility with its customers. The third IPO was **appScatter Group** ("appScatter"), a software platform for the management of mobile apps. The platform gives app developers the functionality to manage and track apps across multiple app stores. There are more than 200 app stores globally, each of which has specific and evolving technical requirements. Whilst the Apple iOS Store and Google's Play Store dominate in the Western world, in emerging markets mobile network operators, device manufacturers and big tech players such as Tencent provide popular platforms for app search and download. To ensure global access, apps must be compatible with all of these platforms and enterprises must be able to monitor the performance of multiple apps across multiple platforms. AppScatter provides this functionality to customers such as Allianz, City AM and Emirates, as well as smaller customers through a flexible monthly fee based on internal user and app numbers. The final IPO was **Fusion Antibodies** ("Fusion"), a Northern Irish clinical services business focused on the 'humanisation' of antibodies. Humanisation is a technique for adapting antibodies from rodents to improve their activation of the human immune system. Fusion has been using its own intellectual property to provide services to other biotech businesses under a 'fee for service' model but is now using the technologies it has created over the past 20 years to structure royalty based deals, which we expect to drive revenue and margin growth in the business.

The Company added four new positions via placings in businesses already listed on AIM. Like Fusion, all of these deals were in businesses operating in the field of biotech, reflecting a trend that we have seen since the 2015 VCT rule changes towards more investment opportunities in this area. The first was in **MaxCyte**, a leader in Flow Electroporation ("FE"), which also has its own pipeline of early stage drugs. FE is a patented technique for cell engineering which applies electrical signals to cells in order to increase the permeability of the cell membrane, which in turn allows chemicals, drugs, DNA or other molecules to be introduced into the cell without damaging it. MaxCyte sells the only pharmaceutical grade machine capable of performing this process. The second

investment was in **Amryt Pharma** (“Amryt”), a biotech formed in August 2015 to focus exclusively on acquiring a portfolio of drugs in late stage development focused on rare and orphan diseases. Amryt floated in 2016 with a pipeline of two drug candidates, one of which (Episalvan) is for the treatment of Epidermolysis Bullosa (“EB”), a distressing and painful genetic skin condition. The main use of the proceeds from this fundraising was to fund the remainder of the Phase III trials of EB. If approved, it has an estimated market size of £1.3 billion. A new investment was also completed in **Byotrol**, a developer of antimicrobial products. Byotrol operates in the consumer, industrial and healthcare sectors, providing low toxicity products with broad-based and long-lasting efficacy across all microbial classes. **Oncimmune Holdings** (“Oncimmune”), a diagnostics company that specialises in auto-antibodies, was the fourth position added. Auto-antibodies are produced by the body as soon as the immune system detects a problem and an auto-antibody response provides a very early indication of the presence of disease. Oncimmune has a low cost test available in the US and Europe which allows GPs to screen patients for lung cancer. The most common existing detection method – a CT scan – has a 50% false positive rate. Early detection of lung cancer is crucial to survival rates and can save around £40,000 in treatment costs per patient.

We increased the Company’s holding in **Rosslyn Data Technologies** (“Rosslyn”) through a fundraising that the business undertook to provide additional working capital and acquire Integritie (UK), a data mining business. The logic for the combination of the two businesses was that the unstructured data capabilities of Integritie (UK) would complement the structured data expertise of Rosslyn. **FairFX Group**, the online payment services provider, also completed a fundraising to facilitate growth and acquire CardOne, which has a technology stack for providing digital banking services to corporate and retail customers across desktop, web and app platforms. A further investment was completed in **Hardide**, the advanced surface coatings business, which raised money to fund the acquisition of two additional reactors at the US facility. The management team’s expectation of future new business in the US justified the investment in additional capacity. Small follow-on investments were completed in: **MirriAd Advertising**, the advertising technology provider and one of the Company’s few private company holdings, which listed on AIM in December 2017; **Faron Pharmaceuticals**, the Finland-based biotech, to fund the company’s commercialisation preparations for Traukamine (for treatment of Acute Respiratory Distress Syndrome) and clinical development program for Clevegen (for the prevention of inflammation and cancer spread); and **Sabien Technology Group**, the energy efficiency product developer.

We exited one qualifying position during the year – **Kalibrate Technologies**, which was the subject of a takeover by Hanover Investors, a private equity turnaround specialist, after a sequence of trading disappointments.

We also reduced the Company’s exposure to **Frontier** and **Keywords** following strong share price performance, but both stocks remain significant positions within the portfolio.

Outlook

February 2018 marked a hiatus in global stock markets’ seemingly unassailable advances. The almost universal strength of the major global economies was, ironically, the catalyst for the sharp market corrections in February 2018. One consequence of the world enjoying its best period of growth since the 2008 financial crisis, is a return of inflation and the beginning of the end of an ultra-low interest rate policy. The response to these twin threats in the first week of February was salutary as stock markets posted significant falls before finding support at levels that were higher than many had feared. We view the recent correction as healthy, removing some of the ‘froth’ that had built up in valuations.

However, the coming year still holds many challenges. Whilst there is a widespread expectation of synchronised global growth, which is being reinforced by the net positive revisions to earnings forecasts in global equity markets, there are some major threats to this scenario too. Not least among these are the data showing that in most of the major economies the figures for broad money supply growth are beginning to fall below the levels which have been seen during the last decade of highly accommodative monetary policy. Moves to normalise monetary policy were always going to be difficult, and it is clear that we are entering a new and tricky phase in the recovery from the great financial crisis of 2008. In the UK the coming year will also be a decisive year for the Brexit negotiations during which we can expect some significant gyrations of sentiment.

The core constituents of the portfolio continue to report high levels of demand for their goods and services, both in the UK and overseas. Whilst the portfolio is never immune to broader market forces (positive or negative), it is dominated by long-term holdings in high quality businesses serving specific niches in attractive growth markets. We believe that such growth will continue to endure in the year ahead.

**Dr Paul Jourdan, Douglas Lawson,
David Stevenson and Anna Wilson***

Amati Global Investors

18 April 2018

* Anna Wilson joined the investment team of Amati on 1 February 2018, just after the end of the year under review, and from 1 March 2018 Douglas Lawson moved to a part-time role. Anna’s biography is included on page 8.

Amati Global Investors



Dr Paul Jourdan
Founder and CEO
Amati Global Investors



Douglas Lawson
Founder and director
Amati Global Investors



David Stevenson
Fund Manager



Anna Wilson
Fund Manager

Amati Global Investors is a specialist fund management business based in Edinburgh. It focuses on UK small and mid-sized companies, with a universe ranging from fully listed constituents of the FTSE Mid 250 and FTSE Small Cap indices, to stocks quoted on the Alternative Investment Market. It is the manager of Amati VCT, Amati VCT 2, the TB Amati UK Smaller Companies Fund, and it also offers an AIM IHT portfolio service. It is 51% owned by its staff, and 49% owned by Mattioli Woods plc, which invested in the company in February 2017. Amati Global Investors is a Tier 1 signatory to the UK Stewardship Code.

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 2010, having joined Noble in 2007 as Head of Equities. His fund management career began in 1998 with Stewart Ivory, which was taken over by First State in 2000 at which time Paul became manager of what is now TB Amati UK Smaller Companies Fund. In early 2005 he launched what is now Amati VCT and he also manages Amati VCT 2 after the investment management contract moved to Amati Global Investors in 2010. In September 2014 Amati launched the Amati AIM IHT Portfolio Service, which Paul co-manages with Douglas Lawson and David Stevenson. Prior to 1998 Paul worked as a professional violinist, including a four year period with the City of Birmingham Symphony Orchestra. He is CEO and a director of Amati and a director of Sistema Scotland.

Douglas Lawson co-founded Amati Global Investors with Paul Jourdan. Prior to this he worked in corporate finance and private equity, initially focusing on middle market UK private equity and listed company M&A at British Linen Advisors, and latterly as an investment manager in the private equity team at Noble. Douglas has co-managed the TB Amati UK Smaller Companies Fund and Amati VCT since 2009, Amati VCT 2 since 2010 and the Amati AIM IHT Portfolio Service since 2014. Douglas started his career at Ernst & Young in London, where he qualified as a Chartered Accountant in 2002. He is a director of Amati.

David Stevenson joined Amati in 2012. In 2005 he was a co-founding partner of investment boutique Cartesian Capital, which managed a range of retail and institutional UK equity funds in long only and long/short strategies. Prior to that he was Assistant Director at SVM, where he also managed equity products including the UK Opportunities small/midcap fund which was ranked top decile for the 5 year period from inception to 2005. David started his career at KPMG where he qualified as a Chartered Accountant. He latterly specialised in corporate finance, before moving into private equity with Dunedin Fund Managers. David has co-managed the TB Amati UK Smaller Companies Fund and the Amati VCTs since 2012 and the Amati AIM IHT Portfolio Service since 2014.

Anna Wilson (previously Anna Croze) is an experienced fund manager specialising in UK equities. Anna joined the Amati team in 2018 from Adam and Company, where she led research for the Private Asset Management award winning wealth manager. She brings her expertise running a successful AIM-listed portfolio service to Amati as well as a breadth of experience in managing substantial OEICs, private client and charity portfolios. She co-managed the Adam Worldwide Fund and the Stewart Ivory Investment Markets Fund which won three Lipper Awards under her stewardship.

Investment Portfolio

as at 31 January 2018

| | Cost £'000 | Valuation £'000 | Market Cap £m | Sector | Status | Dividend Yield ^{NTM} % | Fund % |
|---|---------------|--------------------|---------------------|-------------------|----------|---------------------------------------|-------------|
| TB Amati UK Smaller Companies Fund @ | 2,851 | 5,195 | - | Financials | OEIC | 1.5 | 8.4 |
| Accesso Technology Group plc *@ | 221 | 4,909 | 585.5 | Technology | AIM | 0.0 | 8.0 |
| Frontier Developments plc *@ | 354 | 4,482 | 519.2 | Consumer goods | AIM | 0.0 | 7.3 |
| Keywords Studios plc *@ | 338 | 4,088 | 918.2 | Industrials | AIM | 0.1 | 6.6 |
| Quixant plc †@ | 386 | 3,634 | 267.3 | Technology | AIM | 0.5 | 5.9 |
| Learning Technologies Group plc *@ | 746 | 2,865 | 462.7 | Industrials | AIM | 0.4 | 4.6 |
| Ideagen plc †@ | 496 | 2,744 | 246.3 | Technology | AIM | 0.3 | 4.5 |
| AB Dynamics plc †@ | 259 | 2,411 | 155.8 | Industrials | AIM | 0.4 | 3.9 |
| GB Group plc †@ | 224 | 2,335 | 661.0 | Technology | AIM | 0.7 | 3.8 |
| Tristel plc †@ | 439 | 2,326 | 113.9 | Health care | AIM | 1.6 | 3.8 |
| Top Ten | 6,314 | 34,989 | | | | | 56.8 |
| Brooks Macdonald Group plc †@ | 1,154 | 1,960 | 300.8 | Financials | AIM | 2.4 | 3.2 |
| LoopUp Group plc *@ | 470 | 1,561 | 139.7 | Technology | AIM | - | 2.5 |
| Hardide plc *@ | 800 | 1,523 | 31.3 | Basic materials | AIM | - | 2.5 |
| Premier Technical Services Group plc †@ | 403 | 1,508 | 203.8 | Industrials | AIM | 1.0 | 2.5 |
| Anpario plc †@ | 272 | 1,479 | 111.0 | Health care | AIM | 1.5 | 2.4 |
| Idox plc *@ | 239 | 1,064 | 138.1 | Technology | AIM | 3.9 | 1.7 |
| Faron Pharmaceuticals Oy *@ | 337 | 1,027 | 237.7 | Health care | AIM | - | 1.7 |
| Science in Sport plc †@ | 710 | 1,024 | 49.1 | Consumer goods | AIM | - | 1.7 |
| Billby plc †@ | 574 | 1,010 | 41.1 | Industrials | AIM | 3.0 | 1.6 |
| Fusion Antibodies plc *@ | 535 | 881 | 29.8 | Healthcare | AIM | - | 1.4 |
| Top Twenty | 11,808 | 48,026 | | | | | 78.0 |
| Amryt Pharma plc *@ | 830 | 813 | 53.9 | Health care | AIM | - | 1.3 |
| Water Intelligence plc †@ | 170 | 719 | 21.9 | Industrials | AIM | - | 1.2 |
| appScatter Group plc *@ | 583 | 565 | 39.8 | Technology | AIM | - | 0.9 |
| Oncimmune Holdings plc *@ | 487 | 548 | 74.5 | Health care | AIM | - | 0.9 |
| FairFX Group plc *@ | 377 | 541 | 118.1 | Financials | AIM | - | 0.9 |
| SRT Marine Systems plc *@ | 579 | 522 | 35.1 | Technology | AIM | - | 0.8 |
| Roslyn Data Technologies plc *@ | 777 | 471 | 8.7 | Technology | AIM | - | 0.8 |
| Velocity Composites plc *@ | 492 | 463 | 28.6 | Industrials | AIM | 1.9 | 0.8 |
| MaxCyte Inc *@ | 425 | 417 | 41.9 | Health care | AIM | - | 0.7 |
| Solid State plc †@ | 243 | 410 | 34.7 | Industrials | AIM | 3.1 | 0.7 |
| Byotrol plc *@ | 488 | 407 | 13.3 | Health care | AIM | - | 0.7 |
| Universe Group plc *@ | 133 | 347 | 13.9 | Industrials | AIM | - | 0.6 |
| Mirriad Advertising plc *@ | 583 | 344 | 57.1 | Consumer services | AIM | - | 0.6 |
| Escape Hunt plc *@ | 402 | 342 | 23.3 | Consumer services | AIM | - | 0.6 |
| Belvoir Lettings plc *@ | 339 | 325 | 31.1 | Financials | AIM | 7.1 | 0.5 |
| Sportsweb.com * | 352 | 317 | 2.8 | Industrials | Unquoted | - | 0.5 |
| FreeAgent Holdings plc *@ | 361 | 314 | 29.7 | Technology | AIM | - | 0.5 |

Investment Portfolio

(continued)

| | Cost £'000 | Valuation £'000 | Market Cap £m | Sector | Status | Dividend Yield ^{NTM} % | Fund % |
|---|---------------|--------------------|---------------------|--------------------|----------|---------------------------------------|--------------|
| Netcall plc † | 110 | 287 | 67.1 | Technology | AIM | 2.4 | 0.5 |
| Dods (Group) plc * | 596 | 276 | 47.0 | Consumer services | AIM | - | 0.4 |
| Synectics plc † | 342 | 265 | 34.5 | Industrials | AIM | 2.6 | 0.4 |
| EU Supply plc *@ | 330 | 197 | 9.1 | Technology | AIM | - | 0.3 |
| MyCelx Technologies Corporation *@ | 425 | 194 | 18.8 | Oil & Gas | AIM | - | 0.3 |
| Brighton Pier Group plc (The) *@ | 292 | 192 | 37.4 | Consumer services | AIM | - | 0.3 |
| Property Franchise Group plc (The) †@ | 141 | 187 | 34.3 | Financials | AIM | 5.9 | 0.3 |
| Venn Life Sciences Holdings plc *@ | 274 | 133 | 6.5 | Health care | AIM | - | 0.2 |
| Antenova Limited Ordinary shares & A Preference Shares * | 100 | 128 | 4.2 | Telecommunications | Unquoted | - | 0.2 |
| Genedrive plc *@ | 299 | 123 | 6.2 | Health care | AIM | - | 0.2 |
| Fox Marble Holdings plc Ordinary shares *@ | 157 | 98 | 21.6 | Basic materials | AIM | - | 0.2 |
| Ilika plc *@ | 192 | 84 | 19.6 | Oil & Gas | AIM | - | 0.1 |
| Allergy Therapeutics plc * | 29 | 77 | 172.3 | Health care | AIM | - | 0.1 |
| Crawshaw Group plc †@ | 369 | 72 | 9.3 | Consumer services | AIM | - | 0.1 |
| Tasty plc * | 202 | 52 | 10.8 | Consumer services | AIM | - | 0.1 |
| Sabien Technology Group plc †@ | 530 | 17 | 0.3 | Industrials | AIM | - | - |
| Investments held at nil value | 2,363 | - | | | | | - |
| Total investments | 26,180 | 58,273 | | | | | 94.7 |
| Net current assets | | 3,278 | | | | | 5.3 |
| Net assets | 26,180 | 61,551 | | | | | 100.0 |

* Qualifying holdings.

† Part qualifying holdings.

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

^{NTM} Next Twelve Months Consensus Estimate (Sources: FactSet and Fidessa)

The Manager rebates the management fee of 0.75% on the TB Amati UK Smaller Companies Fund and this is included in the yield.

All holdings are in ordinary shares unless otherwise stated.

Investments held at nil value: Polyhedra Group plc* @, China Food Company plc* @, Sorbic International plc@, Conexion Media Group plc*, Rated People Limited* @, Celoxica Holdings plc*, TCOM Limited* @.

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 93.76%.

Objectives and Key Policies

Investment Policy

A. Investment Policy

Unless specified otherwise, defined terms shall have the meaning given to them in the FCA Handbook from time to time.

“**ITA**” means the Income Tax Act 2007 (as amended).

“**Manager**” means Amati Global Investors Limited.

“**VCT**” means a venture capital trust under section 842AA of the Income and Corporation Taxes Act 1988.

“**Qualifying Investment**” means an investment in shares in, or securities of a company or group carrying on a qualifying trade wholly or mainly in the UK satisfying the conditions in Chapter 4 of Part 6 of ITA, and held by a VCT which meets the requirements described in Part 6 of ITA.

Investment Objectives

The investment objectives of the Company are to generate tax free capital gains and regular dividend income for its shareholders, primarily through Qualifying Investments in AIM-traded companies and through non-qualifying investments as allowed by the VCT legislation. The Company will manage its portfolio to comply with the requirements of the rules and regulations applicable to VCTs from time to time. The Company’s policy is to hold a diversified portfolio across a broad range of sectors to mitigate risk.

Investment Parameters

Whilst the objective is to make Qualifying Investments primarily in companies traded on AIM or on NEX, the Company may also make Qualifying Investments in companies likely to seek a quotation on AIM or NEX. With regard to the non-qualifying portfolio the Company makes investments which are permitted under the VCT regulations, including shares or units in an Alternative Investment Fund (AIF) or an Undertakings for Collective Investment in Transferable Securities (UCITS) fund, and shares in other companies which are listed on a regulated market such as the Main Market of the London Stock Exchange. For continued approval as a VCT under the ITA the Company must, within three years of raising funds, maintain at least 70%* of its value (based on cost price, or last price paid per share if there is an addition to the holding) in qualifying investments. Any investments by the Company in shares or securities of another company must not represent more than 15% of the Company's net asset value at the time of purchase.

* Please note the upcoming change to VCT regulation set out on page 14.

B. Strategy for Achieving Objectives

The strategy for achieving the Investment Objectives which follows is not part of the formal Investment Policy. Any material amendment to the formal Investment Policy may only be made with shareholder consent, but that consent applies only to the formal Investment Policy above and not to any part of the Strategy for Achieving Objectives or Key Performance Indicators below.

Qualifying Investments Strategy

The Company is likely to be a long term investor in most Qualifying Investments, with sales generally only being made where an investment case has deteriorated or been found to be flawed, or to realise profits, adjust portfolio weightings, fund new investments or pay dividends. Construction of the portfolio of Qualifying Investments is driven by the historic investments made by the Company and by the availability of suitable new investment opportunities. The Manager may co-invest in companies in which other funds managed by Amati Global Investors invest.

Non-Qualifying Investments Strategy

The assets of the portfolio which are not in Qualifying Investments will be invested by the Manager in investments which are allowable under the rules applicable to VCTs. Currently cash not needed in the short term is invested in a combination of the following (though ensuring that no more than 15% of the Company’s funds are invested in any one entity at the time of purchase):

- (i) the TB Amati UK Smaller Companies Fund (which is a UCITS fund), or other UCITS funds approved by the Board;
- (ii) direct equity investments in small and mid-sized companies and debt securities in each case listed on the Main Market of the London Stock Exchange; and
- (iii) cash or cash equivalents (including money market funds) which are redeemable within 7 days.

Objectives and Key Policies

(continued)

Key Performance Indicators

The Board expects the Manager to deliver a performance which meets the objectives of the Company. 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 in the Chairman's Statement and Fund Manager's Review. The Board monitors on a regular basis a number of key performance indicators which are typical for VCTs, the main ones being:

- Compliance with HMRC VCT regulations to maintain the Company's VCT Status. See page 14.
- 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 2.
- Ongoing charges ratio. See key data on page 2.

Fund Management and Key Contracts

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. In November 2014, with shareholder consent, the Company amended its non-qualifying investment policy to permit investment in the TB Amati UK Smaller Companies Fund, a small and mid cap fund managed by the Manager. The Company will receive a full rebate on the fees payable by the Company to the Manager within this fund either through a reduction of fees payable by the Company or a direct payment by the Manager.

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, irrecoverable VAT and exceptional costs, including winding-up costs). No performance fee is payable as the Manager has waived all performance fees from 31 July 2014 onwards.

Administration Arrangements

Under the IMA, the Manager has also agreed to provide secretarial and administration services to the Company. The Manager has engaged The City Partnership (UK) Limited to act as company secretary and Link Alternative Fund Administrators Limited to act as fund administrator. The fee in respect of these services payable to the Manager for the year ended 31 January 2018 is £78,000; this fee is paid quarterly in arrears and is subject to an annual increase in line with the retail prices index.

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

Philip Hare & Associates LLP (“Philip Hare & Associates”) are engaged to advise the Company on compliance with VCT requirements. Philip Hare & Associates review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. Philip Hare & Associates work closely with the Manager but report directly to the Board.

Other Matters

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.

- (i) The Company must, within three years of raising funds, maintain at least 70% of its investments by VCT value (cost, or the last price paid per share, if there is an addition to the holding) in shares or securities comprised in qualifying holdings, of which at least 70% (80% for accounting periods beginning on or after 6 April 2019) 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). A further condition will require 30% of new funds raised in accounting periods beginning after 5 April 2018 to be invested in qualifying holdings within 12 months of the accounting period following the issuance of shares.
- (ii) 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.
- (iii) 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 and £16 million after investment; they must be carrying on a qualifying trade and satisfy a number of other tests including those outlined below; the investment must also be made for the purpose of promoting growth or development.
- (iv) VCTs may not invest new capital in a company which has raised in excess of £5 million (£10 million from 6 April 2018 if the company is deemed to be a Knowledge Intensive Company) from all sources of state-aided capital within the 12 months prior to and including the date of investment.
- (v) No investment may be made by a VCT in a company that causes that company to receive more than £12 million (£20 million if the company is deemed to be a Knowledge Intensive Company) of state aid investment (including from VCTs) over the company's lifetime. A subsequent acquisition by the investee company of another company that has previously received State Aid Risk Finance can cause the lifetime limit to be exceeded.
- (vi) No investment can be made by a VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years in each case for Knowledge Intensive Company) or where both a turnover test is satisfied and the

money is being used to enter a new product or geographical market.

- (vii) No funds received from an investment into a company can be used to acquire another existing business or trade.
- (viii) Since 6 April 2016 a VCT must not make "non-qualifying" investments except for certain specified investments held for liquidity purposes and redeemable within seven days. These include investments in UCITS (Undertakings for Collective Investments in Transferable Securities) funds, AIF (Alternative Investment Funds) and in shares and securities purchased on a Regulated Market. In each of these cases the restrictions in (iv) – (vii) above are not applied.
- (ix) Non-qualifying investments in AIM-quoted shares are not permitted as AIM is not a Regulated Market.

Prior to making any qualifying investment the Manager requests HMRC VCT clearance letters from investee companies and takes advice from Philip Hare & Associates 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. Philip Hare & Associates also review the portfolio bi-annually to ensure the Manager has complied with regulations and has reported to the Board that the VCT has met the necessary requirements during the year.

PRIIps REGULATION

The Company is required to publish a Key Information Document (KID), which sets out the key features, risks, potential future performance and costs of PRIIPs (Packaged Retail and Insurance-based Investment Products). This document is available at the website of Amati Global Investors: www.amatiglobal.com.

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 Philip Hare & Associates as taxation adviser to the Company. Philip Hare & Associates report 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 has a premium listing 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 regulations 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 pages 22 and 23.

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 19 to 22 to the financial statements on pages 46 to 48.

The Company is financed through equity.

Liquidity Risk

The Company's investments may be difficult to realise. As a closed-end vehicle the Company does have the long-term funding appropriate for 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.

Other Matters

(continued)

Market Risk

Investment in AIM-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, not only in the UK, but also in the core markets relevant to our investee companies, together with a 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 pages 22 and 23.

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.

STATEMENT ON LONG-TERM VIABILITY

In accordance with the UK Corporate Governance Code in 2016 (the "2016 Code"), the directors have carried out a robust assessment of the prospects of the Company for the period to January 2023, taking into account the Company's current position and principal risks, and are of the opinion that, at the time of approving the financial statements there is a reasonable expectation that the Company will be able to continue in operation and meet liabilities as they fall due over that period.

To come to this conclusion, the Manager prepares and the directors consider an income statement forecast for the next five years which is considered to be an appropriate time period due to its consistency with the UK Government's tax relief minimum holding period for an investment in a VCT. The directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than five years. This time frame allows for reasonable forecasts to be made to allow the Board to provide shareholders with reasonable assurance over the viability of the Company. In making their assessment the directors have taken 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.

OTHER DISCLOSURES

The Company had no employees during the year and has three non-executive directors, two of whom are male and one is female. The Company, being an investment company with no employees, has no policies in relation to environmental matters, social, community and human rights issues.

On behalf of the Board

Julian Avery
Chairman

18 April 2018

Board of Directors

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 and a trustee of the Butler Trust. He is President of St. Michael's Hospice, Hastings.

Mike Killingley 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, and a former 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 Chairman of the audit committee of the Company and the senior independent director.

Susannah Nicklin is an investment and financial services professional with 20 years of experience in executive roles at Goldman Sachs and Alliance Bernstein in the US, Australia and the UK. She has also worked in the social impact private equity sector with Bridges Ventures and the Global Impact Investing Network. Susannah is a non-executive director and senior independent director at Pantheon International Plc, a non-executive director of City of London Investment Group plc and a non-executive director of Baronsmead Venture Trust plc. She holds the Chartered Financial Analyst credential from the CFA Institute.

Directors' Report

The Corporate Governance report at pages 20 to 23 forms part of the directors' report.

Directors

The directors of the Company during the year under review were Julian Avery, Mike Killingley and Susannah Nicklin. The Company indemnifies its directors and officers and has purchased insurance to cover its directors.

Dividend

As discussed in the Chairman's Statement on page 3 the Board is not recommending a final dividend. The directors propose payment of a second interim dividend on 27 July 2018 of 5.25p per share for the financial year ending 31 January 2018.

Share Capital

There were 36,057,095 ordinary shares in issue at the year end. During the year 4,500,279 shares in the Company were allotted at an average price of 148.09p per share raising £6.5m net of issue costs. Since the year end, 3,305,216 shares have been issued under the Offer for Subscription, please refer to Note 15 on page 44 for further details.

During the year 1,086,253 shares in the Company with a nominal value of 5p per share were bought back for an aggregate consideration of £1.5m at an average price of 139.34p per share (representing 3.3% of the shares in issue at 31 January 2017). Since the year end, 553,107 shares have been bought back for an aggregate consideration of £0.8m at an average price of 150.04p 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 year, 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. At the Company's year end authority remained for the Company to buy back 4,459,210 shares.

The rights and obligations attached 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 Company has one class of share, ordinary shares, which carry no right to fixed income. 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.

General Meeting

A Circular was posted in March to all shareholders of the Company asking them to vote at a general meeting on 26 April 2018 on proposals for a merger of the Company with Amati VCT plc. The Circular also asked shareholders to vote on a resolution to cancel the Company's entire share premium account as at the date of the final hearing before the High Court at which said final confirmation is sought. The purpose of the share premium cancellation is to credit a distributable reserve available for distribution for any purpose which is able to be applied, including buying back shares, writing off losses and enhancing the ability to pay distributions.

Annual General Meeting

Authority to Allot Shares

At the annual general meeting of the Company held on 28 June 2017 the following resolution was passed: 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 28 June 2022.

Substantial Shareholdings

| | 31 January 2018 | | As at the date of this report | |
|--|----------------------------|----------------------|-------------------------------|----------------------|
| | No of ordinary shares held | % of shares in issue | No of ordinary shares held | % of shares in issue |
| Hargreaves Lansdown (Nominees) Limited | 1,280,993 | 3.55% | 1,359,599 | 3.50% |

Auditor

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

Re-election of directors

In accordance with corporate governance best practice, Mike Killingley and Susannah Nicklin are proposed for re-election at the AGM.

If the merger proceeds as planned Julia Henderson, Peter Lawrence and Brian Scouler will be appointed to the Board in May 2018. Resolutions to re-elect Julia Henderson, Peter Lawrence and Brian Scouler are proposed at the forthcoming AGM.

Global Greenhouse Gas Emissions

All of the Company's activities are outsourced to third parties. The Company therefore has no direct greenhouse gas emissions to report from its operations.

Going Concern

In accordance with FRC Guidance for directors on going concern and liquidity risk the directors have assessed the prospects of the Company over the next five years and are of the opinion that, at the time of approving the financial statements, the Company has adequate resources to continue in business. 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 14 to 16. As a consequence, the directors have a reasonable expectation 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 and meet its liabilities as they fall due. Thus the directors believe it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Accountability and Audit

The independent auditor's report is set out on pages 28 to 31 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.

Financial Instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. Further details, including details about risk management, are set out in the Strategic Report and in Notes 18 to 22 on pages 45 to 48.

Future Developments

Significant events which have occurred after the year end are detailed in Note 15 on page 44. Future developments which could affect the Company are discussed in the outlook sections of the Chairman's Statement and Fund Manager's Review.

On behalf of the Board

Julian Avery
Chairman

18 April 2018

Statement of Corporate Governance

Background

The Board of Amati VCT 2 plc recognise the importance of sound corporate governance. The Board 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") available on the AIC website www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of 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 as a venture capital trust. The Board considers that reporting within the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), will provide better information for shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the Code except as set out below. For the reasons set out in the AIC Guide, and in the preamble to the Code, the Board considers that the provisions relating to the role of chief executive, executive directors' remuneration and the need for an internal audit function are not relevant to the position of the Company, being an investment company.

Board of Directors

The Company has a Board of three directors, all of whom are considered independent non-executive directors under the AIC Code. As Mike Killingley and Susannah Nicklin 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 AGM. As noted in the Chairman's Statement Julian Avery is intending to retire as Chairman of the Company and will step down from the Board at the beginning of May assuming that the merger proceeds as planned.

If the merger proceeds as planned, Julia Henderson, Peter Lawrence and Brian Scouler will be appointed to the Board in May 2018. Peter Lawrence, currently chairman of Amati VCT plc will become chairman of the post-merger Board for approximately 12 months in order to oversee the merger process and ensure a smooth transition.

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. 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 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. 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 or she had 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. The Board believes that each director has demonstrated that they are 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 and 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 composition of the Board and its committees is considered adequate for the effective governance of the Company. The biographies of the directors, set out on page 17 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/avct2_the_board.php.

Report of the Audit Committee

The audit committee comprises Mike Killingley (chairman) and Susannah Nicklin. 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. In addition, the Board is satisfied that the committee as a whole has competence relevant to the venture capital trust sector.

During the year ended 31 January 2018 the audit committee met twice and:

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

The audit committee carried out a robust assessment of the principal risks facing the Company and concluded that the key areas of risk which threaten the business model, future performance, solvency or liquidity 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, Philip Hare & Associates, as described on page 15.

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 it has a clear understanding of the business of the Company; that the audit team is appropriately

Statement of Corporate Governance

(continued)

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 does 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 8 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 for the 31 January 2016 audit.

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 and Remuneration Committees

As the Board is small and consists wholly of non-executive directors, and in view of the nature of a Venture Capital Trust, it has been decided that a nomination committee does not need to be formed. The remuneration of the directors is reviewed by the whole Board although no director is involved in setting his or her own remuneration.

The appointment of new directors is decided by the whole Board. 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. 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.

The Board has considered the recommendations of the Code concerning diversity and welcomes initiatives aimed at increasing diversity generally. The Board believes, 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 all forms of diversity are a significant element of this.

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 2018.

| Director | Board meetings | | Audit committee meetings | |
|------------------|----------------|----------|--------------------------|----------|
| | held | attended | held | attended |
| Julian Avery* | 7 | 7 | 2 | 1 |
| Mike Killingley | 7 | 7 | 2 | 2 |
| Susannah Nicklin | 7 | 7 | 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.

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 Guidance on Risk Management published by the Financial Reporting Council in 2014, the audit committee 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 13, 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.

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 notice of the AGM 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). 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 fair, balanced and understandable assessment of the Company's position and performance, business model and strategy.

On behalf of the Board

Julian Avery
Chairman

18 April 2018

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

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; and
- 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 and, as regards the Company financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Website Publication

The directors are responsible for ensuring the Annual Report and the financial statements are made available on a website, this website is maintained by the Manager on behalf of the Company. 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 of the principal risks and uncertainties that they face.

On behalf of the Board

Julian Avery
Chairman

18 April 2018

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the requirements of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). Ordinary resolutions for the approval of the Directors' Annual Report on remuneration will be put to members at the AGM on 27 June 2018.

The Company's auditor, BDO LLP, is required to give its 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 28 to 31.

Annual Statement from the Chairman of the Company

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 on page 22. The Board last agreed to increase annual fees with effect from 1 February 2015 by £1,500 per director.

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. Directors' fees are set with a view to attracting and retaining the directors required to oversee the Company effectively 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 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.

This policy was last approved by the members at the AGM in 2017, and will next be voted on by the members at the AGM to be held in 2020.

The Company's Articles of Association provide for a maximum level of total remuneration of £90,000 per annum in aggregate. A special resolution to amend the Articles of Association of the Company to increase the aggregate of the remuneration of all directors to £120,000 per annum is proposed at the general meeting to be held on 26 April 2018.

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. In accordance with corporate governance best practice, the Board has 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. 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 at which they may stand for re-election.

| Director | Date of original appointment | Due date for re-election |
|------------------|------------------------------|--------------------------|
| Julian Avery | 8 November 2011 | n/a* |
| Mike Killingley | 22 February 2006 | 2018 AGM |
| Susannah Nicklin | 4 May 2016 | 2018 AGM |

* Julian Avery has stated his intention to retire from the Board in May should the merger proceed as planned.

Directors' Remuneration Report

(continued)

Directors' fees for the year (Audited)

The fees payable to individual directors in respect of the year ended 31 January 2018 are shown in the table below.

| Director | Total fee for year ended 31 January 2018 £ | Total fee for year ended 31 January 2017 £ |
|--|---|---|
| Julian Avery | 23,500 | 23,500 |
| Mike Killingley* | 19,000 | 19,000 |
| Christopher Macdonald (retired 31 December 2016) | n/a | 15,125 |
| Christopher Moorsom (retired 23 June 2016) | n/a | 6,554 |
| Susannah Nicklin (appointed 4 May 2016) | 16,500 | 12,242 |
| | 59,000 | 76,421 |

* Mike Killingley receives an additional fee as he is chairman of the audit committee.

Directors are remunerated exclusively by fixed fees and do not receive bonuses, share options, long term incentives, pension or other benefits.

Directors' shareholdings (Audited)

The directors who held office at 31 January 2018 and their interests in the shares of the Company (including beneficial and family interests) were:

| | 31 January 2018 | | 31 January 2017 | |
|------------------|-----------------|---------------------------|-----------------|---------------------------|
| | Shares held | % of issued share capital | Shares held | % of issued share capital |
| Julian Avery | 102,800 | 0.29 | 97,865 | 0.30 |
| Mike Killingley | 52,697 | 0.15 | 49,833 | 0.15 |
| Susannah Nicklin | 2,933 | 0.01 | 2,793 | 0.01 |

The Company confirms that it has not set out any formal requirements or guidelines for a director to own shares in the Company.

Relative importance of spend on pay

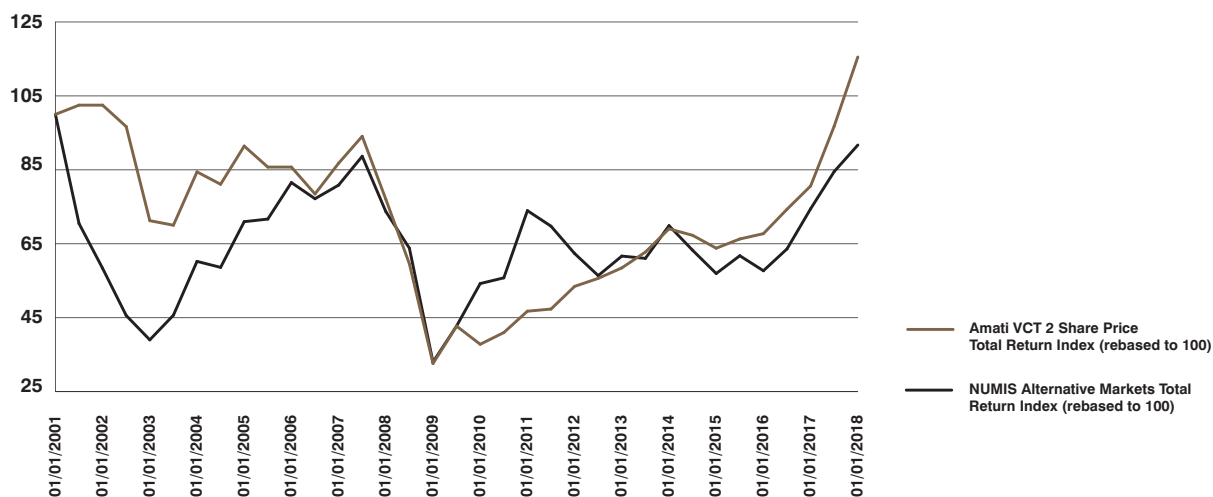
The table below shows the remuneration paid to directors and shareholder distributions in the year to 31 January 2018 and the prior year:

| | 2018 £ | 2017 £ | Percentage increase/ (decrease) |
|-------------------------------------|-----------|-----------|------------------------------------|
| Total dividend paid to shareholders | 2,577,461 | 1,994,648 | 29.22% |
| Total repurchase of own shares | 1,513,633 | 706,557 | 114.23% |
| Total directors' fees | 59,000 | 76,421 | (22.80%) |

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 Numis Alternative Markets 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 28 June 2017, 97.9% of shareholders voted for, 2.1% voted against and 18,540 shares were withheld in respect of the resolution approving the Directors' Remuneration Report and 97.7% of shareholders voted for the Remuneration Policy with 2.3% voting against and 25,689 shares withheld. An ordinary resolution for the approval of the Directors' Annual Report on Remuneration will be put to shareholders at the forthcoming AGM.



Prepared in accordance with Schedule 8 of the Large and Medium Size Companies and Groups (Accounts and Reports) Regulations 2008/410.

On behalf of the Board

Julian Avery
Chairman

18 April 2018

Independent Auditor's Report

to the members of Amati VCT 2 plc

Opinion

We have audited the financial statements of Amati VCT 2 plc (the "Company") for the year ended 31 January 2018, which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our 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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | Audit response |
|--|--|
| <p>Valuation of investments (Note 1 and 8 to the financial statements)</p> <p>The investment portfolio at the year end comprised of listed equity level 1 investments (£57.8m) and unquoted level 3 investments (£0.5m).</p> <p>We considered the valuation of investments to be the most significant audit area as investments represent the most significant balance in the Financial Statements and underpin the principal activity of the entity. Investments are held at fair value and this is a key accounting estimate where there is an inherent risk of management override arising from the investments valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the Company.</p> | <p>We responded to this matter by testing the valuation of 100% of the portfolio of listed equity investments.</p> <p>We confirmed against independent data sources for the listed equity investments that the correct bid price has been used for the year end fair value and that there are no contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value.</p> |

Our application of materiality

| | |
|--|--|
| <p>We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements.</p> | <p>We determined final materiality for the financial statements as a whole to be £580,000 based on 1% of the value of investments. On the basis of our risk assessment, together with our assessment of the control environment, our judgement is that performance materiality for the financial statements should be 75% of materiality, namely £440,000. Our objective in adopting this approach was to ensure that total detected and undetected audit differences do not exceed our final materiality of £580,000 for the financial statements as a whole.</p> |
|--|--|

| Materiality measure | Purpose | Key considerations and benchmarks | Quantum (£) |
|---|---|---|----------------------------|
| Financial statement materiality (1% value of investments) | Assessing whether the financial statements as a whole present a true and fair view. We consider this to be the key measurement for shareholders. | <ul style="list-style-type: none"> The value of investments The level of judgement inherent in the valuation The range of reasonable alternative valuation | 580,000 (2017: 390,000) |
| Performance materiality | Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions. | <ul style="list-style-type: none"> Financial statement materiality Risk and control environment History of prior errors (if any) | 440,000 (2017: 290,000) |
| Specific materiality – classes of transactions and balances which impact on revenue profits (10% gross expenditure) | Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. | <ul style="list-style-type: none"> The level of net income return | 120,000 (2017: 90,000) |

Independent Auditor's Report

(continued)

We agreed with the Audit committee that we would report to the committee all audit differences in excess of £6,000 (2017: £5,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken by the Board and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the

Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Vanessa-Jayne Bradley (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
18 April 2018

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

Income Statement

for the year ended 31 January 2018

| | Note | 2018 Revenue £'000 | 2018 Capital £'000 | 2018 Total £'000 | 2017 Revenue £'000 | 2017 Capital £'000 | 2017 Total £'000 |
|---|------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
| Gain on investments | 8 | - | 19,511 | 19,511 | - | 7,748 | 7,748 |
| Income | 2 | 403 | - | 403 | 446 | - | 446 |
| Investment management fees | 3 | (227) | (681) | (908) | (158) | (473) | (631) |
| Other expenses | 4 | (289) | - | (289) | (302) | - | (302) |
| (Loss)/profit on ordinary activities before taxation | | (113) | 18,830 | 18,717 | (14) | 7,275 | 7,261 |
| Taxation on ordinary activities | 5 | - | - | - | - | - | - |
| (Loss)/profit and total comprehensive income attributable to shareholders | | (113) | 18,830 | 18,717 | (14) | 7,275 | 7,261 |
| Basic and diluted (loss)/earnings per Ordinary share | 7 | (0.33)p | 54.85p | 54.52p | (0.04)p | 22.89p | 22.85p |

The total column of this Income Statement represents the profit and loss account of the Company. The supplementary revenue and capital columns have been prepared in accordance with The Association of Investment Companies' Statement of Recommended Practice. There is no other comprehensive income other than the results for the year discussed above. Accordingly a Statement of total comprehensive income is not required.

All the items above derive from continuing operations of the Company.

The notes on pages 36 to 48 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 January 2018

| | Non-distributable reserves | | | | | Distributable reserves | | | |
|---|----------------------------|------------------------|-------------------------|-------------------------------------|--|--------------------------|--|--------------------------|-------------------------|
| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Capital redemption reserve £'000 | Capital reserve (non-distributable) £'000 | Special reserve £'000 | Capital reserve (distributable) £'000 | Revenue reserve £'000 | Total reserves £'000 |
| Opening balance as at 1 February 2017 | 1,633 | 13,044 | 425 | 364 | 16,487 | 14,477 | (6,031) | (14) | 40,385 |
| Profit/(loss) and total comprehensive income for the year | - | - | - | - | 16,872 | - | 1,958 | (113) | 18,717 |
| Total comprehensive income for the year | 1,633 | 13,044 | 425 | 364 | 33,359 | 14,477 | (4,073) | (127) | 59,102 |
| Contributions by and distributions to shareholders: | | | | | | | | | |
| Repurchase of shares | (54) | - | - | 54 | - | (1,514) | - | - | (1,514) |
| Shares issued | 225 | 6,439 | - | - | - | - | - | - | 6,664 |
| Share issue costs | - | (124) | - | - | - | - | - | - | (124) |
| Dividends paid | - | - | - | - | - | (2,577) | - | - | (2,577) |
| Total contributions by and distributions to shareholders | 171 | 6,315 | - | 54 | - | (4,091) | - | - | 2,449 |
| Closing balance as at 31 January 2018 | 1,804 | 19,359 | 425 | 418 | 33,359 | 10,386 | (4,073) | (127) | 61,551 |

for the year ended 31 January 2017

| | Non-distributable reserves | | | | | Distributable reserves | | | |
|---|----------------------------|------------------------|-------------------------|-------------------------------------|--|--------------------------|--|--------------------------|-------------------------|
| | Share capital £'000 | Share premium £'000 | Merger reserve £'000 | Capital redemption reserve £'000 | Capital reserve (non-distributable) £'000 | Special reserve £'000 | Capital reserve (distributable) £'000 | Revenue reserve £'000 | Total reserves £'000 |
| Opening balance as at 1 February 2016 | 1,513 | 9,771 | 425 | 332 | 8,476 | 17,150 | (5,295) | 28 | 32,400 |
| Profit/(loss) and total comprehensive income for the year | - | - | - | - | 8,011 | - | (736) | (14) | 7,261 |
| Total comprehensive income for the year | 1,513 | 9,771 | 425 | 332 | 16,487 | 17,150 | (6,031) | 14 | 39,661 |
| Contributions by and distributions to shareholders: | | | | | | | | | |
| Repurchase of shares | (32) | - | - | 32 | - | (707) | - | - | (707) |
| Shares issued | 152 | 3,306 | - | - | - | - | - | - | 3,458 |
| Share issue costs | - | (33) | - | - | - | - | - | - | (33) |
| Dividends paid | - | - | - | - | - | (1,966) | - | (28) | (1,994) |
| Total contributions by and distributions to shareholders | 120 | 3,273 | - | 32 | - | (2,673) | - | (28) | 724 |
| Closing balance as at 31 January 2017 | 1,633 | 13,044 | 425 | 364 | 16,487 | 14,477 | (6,031) | (14) | 40,385 |

Distributable reserves comprise the special reserve, the revenue reserve and the capital reserve excluding investment holding gains. At 31 January 2018, the amount of reserves deemed distributable is £6,186,000 (31 January 2017: £8,432,000).

A special resolution has been put to shareholders in the Circular for the General Meeting on 26 April 2018 relating to the proposal for the merger of Amati VCT plc and the Company to approve the cancellation of the share premium account of the Company via the High Court process, to create additional distributable reserves.

Balance Sheet

as at 31 January 2018

| | Note | 2018 £'000 | 2017 £'000 |
|--|------|---------------|---------------|
| Fixed assets | | | |
| Investments held at fair value | 8 | 58,273 | 38,878 |
| Current assets | | | |
| Debtors | 9 | 867 | 659 |
| Cash at bank | | 2,823 | 1,255 |
| Total current assets | | 3,690 | 1,914 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 10 | (412) | (407) |
| Net current assets | | 3,278 | 1,507 |
| Total assets less current liabilities | | 61,551 | 40,385 |
| Capital and reserves | | | |
| Called up share capital* | 11 | 1,804 | 1,633 |
| Share premium account* | | 19,359 | 13,044 |
| Merger reserve* | | 425 | 425 |
| Capital redemption reserve* | | 418 | 364 |
| Capital reserve (non-distributable)* | | 33,359 | 16,487 |
| Special reserve | | 10,386 | 14,477 |
| Capital reserve (distributable) | | (4,073) | (6,031) |
| Revenue reserve | | (127) | (14) |
| Equity shareholders' funds | | 61,551 | 40,385 |
| Net asset value per share | 12 | 170.70p | 123.72p |

* These reserves are not distributable.

The financial statements on pages 32 to 48 were approved and authorised for issue by the Board of directors on 18 April 2018 and were signed on its behalf by

Julian Avery

Chairman

Company Number 04138683

The accompanying notes on pages 36 to 48 are an integral part of the balance sheet.

Statement of Cash Flows

for the year ended 31 January 2018

| | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Cash flows from operating activities | | |
| Investment income received | 408 | 526 |
| Investment management fees | (818) | (598) |
| Other operating costs | (287) | (293) |
| Net cash outflow from operating activities | (697) | (365) |
| Cash flows from investing activities | | |
| Purchases of investments | (5,466) | (2,909) |
| Disposals of investments | 5,679 | 2,508 |
| Net cash inflow/(outflow) from investing activities | 213 | (401) |
| Net cash outflow before financing | (484) | (766) |
| Cash flows from financing activities | | |
| Net proceeds of share issues | 6,228 | 2,888 |
| Payments for share buy-backs | (1,599) | (565) |
| Equity dividends paid | (2,577) | (1,994) |
| Net cash inflow from financing activities | 2,052 | 329 |
| Increase/(decrease) in cash | 1,568 | (437) |
| Reconciliation of net cash flow to movement in net cash | | |
| Increase/(decrease) in cash during the year | 1,568 | (437) |
| Net cash at 1 February | 1,255 | 1,692 |
| Net cash at 31 January | 2,823 | 1,255 |
| Reconciliation of Profit on Ordinary Activities Before Taxation to Net Cash Outflow from Operating Activities | | |
| Profit on ordinary activities before taxation | 18,717 | 7,261 |
| Net gain on investments | (19,511) | (7,748) |
| Increase in creditors, excluding corporation tax payable | 91 | 43 |
| Decrease in debtors | 6 | 79 |
| Net cash outflow from operating activities | (697) | (365) |

The accompanying notes on pages 36 to 48 are an integral part of the statement.

Notes to the Financial Statements

1 Accounting Policies

Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office is 27/28 Eastcastle Street, London W1W 8DH. The principal activity of the Company is to invest in a portfolio of companies whose shares are primarily traded on AIM.

Basis of Accounting

The financial statements have been prepared under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and in accordance with the SORP issued by the Association of Investment Companies ("AIC") in November 2014 and consequential amendments and on the assumption that the Company maintains VCT status.

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. Where interest is rolled up or payable on redemption it is recognised as income unless there is reasonable doubt as to its receipt.

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.

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 year, 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 year.

No tax liability arises on gains from sales of fixed asset investments by the Company by virtue of its VCT status.

Investments

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

In respect of investments that are traded on AIM or are fully listed, these are generally valued at bid prices at close of business on the Balance Sheet date. 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 present value of future payments discounted at a market value of interest for a similar loan and valuing the option at fair value.

The valuation of the Company’s investment in TB Amati UK Smaller Companies Fund is based on the published fund mid price NAV. The NAV is provided by the Authorised Corporate Director of the fund, T Bailey Fund Managers Limited.

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. Investments are held at fair value through profit or loss with changes in the fair value recognised in the Income Statement and allocated to capital.

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

Cash and cash equivalents

For the purposes of the Balance Sheet, cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments and money market funds that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

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.

Short-term Debtors and Creditors

Debtors and creditors with no stated interest rate and receivable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Judgements and Key Sources of Estimation Uncertainty

The preparation of the Financial Statements requires management to make judgments and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The nature of estimation means that the actual outcomes could differ from those estimates, possibly significantly. The most critical estimates and judgments relate to the determination of carrying value of investments at fair value through profit or loss (see notes 8 and 18 on pages 42 and 45 respectively). The Company values investments by following the IPEV guidelines.

Notes to the Financial Statements

(continued)

1 Accounting Policies (continued)

Share Premium

The share premium account is a non-distributable reserve which represents the accumulated premium paid on the issue of shares in previous periods over the nominal value, net of any expenses.

Merger Reserve

The merger reserve is a non-distributable reserve which originally represented the share premium on shares issued when the Company merged with Singer & Friedlander AIM VCT and Singer & Friedlander AIM 2 VCT in February 2006. The merger reserve is released to the realised capital reserve as the assets acquired as a consequence of the merger are subsequently disposed of or permanently impaired. There have been no disposals of these assets during the year.

Capital Redemption Reserve

The capital redemption reserve is a non-distributable reserve which is created when shares are repurchased for cancellation resulting in a reduction of share capital.

Special Reserve

The special reserve is a distributable reserve which is created by the authorised reduction of the share premium account and can be applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies Act 2006) are able to be applied.

Capital Reserve

The following are taken to the capital reserve:

- gains and losses on the disposal of investments
- increase and decrease in the value of investments held at the year end
- expenses allocated to this reserve in accordance with the above policies.

Revenue Reserve

The revenue reserve represents accumulated profits and losses and any surplus profit is distributable by way of dividends.

2 Income

| | Year to 31 January 2018 £'000 | Year to 31 January 2017 £'000 |
|-----------------------------------|--|--|
| Income: | | |
| Dividends from UK companies | 353 | 320 |
| Dividends from overseas companies | - | 23 |
| UK loan stock interest | 44 | 98 |
| Interest from deposits | 6 | 5 |
| | 403 | 446 |

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 13.

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 2018 £'000 | Year to 31 January 2017 £'000 |
|--|--|--|
| Due to the Manager by the Company at 1 February | 170 | 137 |
| Investment management fees charged to revenue and capital for the year | 908 | 631 |
| Fees paid to the Manager during the year | (818) | (598) |
| Due to the Manager by the Company at 31 January | 260 | 170 |

The Manager also receives a secretarial and administration fee of £78,000 (2017: £76,000) (subject to an annual increase in line with the retail prices index), paid quarterly in arrears.

No performance fee is payable in respect of the year ended 31 January 2018 or the year ended 31 January 2017 as the Manager has waived all performance fees from 31 July 2014 onwards.

Annual running costs are capped at 3.5% of the Company's net assets. If the annual running costs of the Company in any year are greater than 3.5% of the Company's net assets, the excess is 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 Other Expenses

| | Year to 31 January 2018 £'000 | Year to 31 January 2017 £'000 |
|--|--|--|
| Directors' remuneration | 59 | 76 |
| Directors' national insurance | 2 | 3 |
| Directors' expenses | 1 | 1 |
| Auditor's remuneration – audit of statutory financial statements | 21 | 22 |
| Administration and secretarial services | 78 | 76 |
| Other expenses | 128 | 124 |
| | 289 | 302 |

The Company has no employees other than directors, they are therefore the only key management personnel.

Details of directors' remuneration are provided in the audited section of the directors' remuneration report on page 26.

Notes to the Financial Statements

(continued)

5 Tax on Ordinary Activities

5a Analysis of charge for the year

| | Year to 31 January 2018 £'000 | Year to 31 January 2017 £'000 |
|---------------------|--|--|
| Charge for the year | - | - |

5b Factors affecting the tax charge for the year

| | Year to 31 January 2018 £'000 | Year to 31 January 2017 £'000 |
|--|--|--|
| Profit on ordinary activities before taxation | 18,717 | 7,261 |
| Corporation tax at standard rate of 19.16% (2017: 20%) | 3,586 | 1,452 |
| Effect of: | | |
| Non-taxable dividends | (68) | (64) |
| Non-taxable gains on investments | (3,738) | (1,550) |
| Movement in excess management expenses | 220 | 162 |
| Tax charge for the year (note 5a) | - | - |

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 management 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 £1,775,000 (31 January 2017: £1,560,000). This is calculated using a corporation tax rate of 17% which is the rate at which it is deemed that any losses would be utilised.

6 Dividends Paid

Amounts recognised as distributions to equity holders during the year:

| | 2018 Revenue £'000 | 2018 Capital £'000 | 2017 Revenue £'000 | 2017 Capital £'000 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Final dividend for the year ended 31 January 2016 of 3.5p per ordinary share paid on 22 July 2016 | - | - | 28 | 1,088 |
| Interim dividend for the year ended 31 January 2017 of 2.75p per ordinary share paid on 25 November 2016 | - | - | - | 878 |
| Final dividend for the year ended 31 January 2017 of 4.25p per ordinary share paid on 21 July 2017 | - | 1,462 | - | - |
| Interim dividend for the year ended 31 January 2018 of 3.25p per ordinary share paid on 24 November 2017 | - | 1,115 | - | - |
| | - | 2,577 | 28 | 1,966 |

Set out below are the interim and final dividends paid or proposed on Ordinary Shares in respect of the financial year.

| | 2018 Revenue £'000 | 2018 Capital £'000 | 2017 Revenue £'000 | 2017 Capital £'000 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Interim dividend for the year ended 31 January 2018 of 3.25p per ordinary share (2017: 2.75p) | - | 1,115 | - | 878 |
| Final dividend for the year ended 31 January 2017 of 4.25p per ordinary share | - | - | - | 1,457 |
| Proposed second interim dividend for the year ended 31 January 2018 of 5.25p per ordinary share (2017: nil)* | - | 2,037* | - | - |
| | - | 3,152 | - | 2,335 |

* Based on shares in issue on 17 April 2018. The payment of a second interim dividend will, as always, be subject to ensuring that the Company has sufficient distributable reserves at the time of payment.

7 Earnings per Share

| | 2018 Net profit/(loss) £'000 | 2018 Weighted average shares | 2018 Earnings per share pence | 2017 Net (loss)/profit £'000 | 2017 Weighted average shares | 2017 Earnings per share pence |
|---------|---------------------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|--|
| Revenue | (113) | 34,329,245 | (0.33)p | (14) | 31,774,562 | (0.04)p |
| Capital | 18,830 | 34,329,245 | 54.85p | 7,275 | 31,774,562 | 22.89p |
| Total | 18,717 | 34,329,245 | 54.52p | 7,261 | 31,774,562 | 22.85p |

Notes to the Financial Statements

(continued)

8 Investments

| | Level 1* £'000 | Level 2* £'000 | Level 3* £'000 | Total £'000 |
|--|-------------------|-------------------|-------------------|----------------|
| Cost as at 1 February 2017 | 19,902 | - | 4,518 | 24,420 |
| Opening unrealised gain/(loss) | 18,043 | - | (1,556) | 16,487 |
| Opening unrealised loss recognised in realised reserve | (296) | - | (1,733) | (2,029) |
| Opening valuation as at 1 February 2017 | 37,649 | - | 1,229 | 38,878 |
| Movements in the year: | | | | |
| Reclassification in the year | 284 | - | (284) | - |
| Purchases | 5,466 | - | - | 5,466 |
| Sales - proceeds | (4,939) | - | (643) | (5,582) |
| Realised gain on sales | 2,576 | - | 143 | 2,719 |
| Unrealised gain/(loss) in the year | 16,792 | - | - | 16,792 |
| Valuation as at 31 January 2018 | 57,828 | - | 445 | 58,273 |
| Cost at 31 January 2018 | 23,364 | - | 2,816 | 26,180 |
| Unrealised gain/(loss) as at 31 January 2018 | 34,760 | - | (1,401) | 33,359 |
| Closing unrealised loss recognised in realised reserve | (296) | - | (970) | (1,266) |
| Valuation as at 31 January 2018 | 57,828 | - | 445 | 58,273 |
| Equity shares | 57,828 | - | 398 | 58,226 |
| Preference shares | - | - | 47 | 47 |
| Valuation as at 31 January 2018 | 57,828 | - | 445 | 58,273 |

* Refer to note 18 for definitions

| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Realised gains on disposal | 2,719 | 250 |
| Unrealised gains on investments during the year | 16,792 | 7,498 |
| Net gain on investments | 19,511 | 7,748 |

Transaction Costs

During the year the Company incurred transaction costs of £nil (31 January 2017: £nil) and £14,000 (31 January 2017: £7,000) on purchases and sales of investments respectively. These amounts are included in the gain on investments as disclosed in the income statement.

9 Debtors

| | 2018 £'000 | 2017 £'000 |
|---------------------------------|---------------|---------------|
| Receivable for investments sold | - | 96 |
| Prepayments and accrued income | 867 | 563 |
| | 867 | 659 |

10 Creditors: Amounts Falling due within One Year

| | 2018 £'000 | 2017 £'000 |
|--------------------------------|---------------|---------------|
| Payable for investments bought | 57 | 142 |
| Other creditors | 355 | 265 |
| | 412 | 407 |

11 Called Up Share Capital

| Ordinary shares (5p shares) | 2018 Number | 2018 £'000 | 2017 Number | 2017 £'000 |
|---|----------------|---------------|----------------|---------------|
| Allotted, issued and fully paid at 1 February | 32,643,069 | 1,633 | 30,259,489 | 1,513 |
| Issued during the year | 4,500,279 | 225 | 3,031,153 | 152 |
| Repurchase of own shares for cancellation | (1,086,253) | (54) | (647,573) | (32) |
| At 31 January | 36,057,095 | 1,804 | 32,643,069 | 1,633 |

During the year a total of 1,086,253 ordinary shares of 5p each were purchased by the Company at an average price of 139.34p per share.

Further details of the Company's share capital and associated rights are shown in the Directors' Report on page 18.

12 Net Asset Value per Ordinary Share

| | 2018 Net assets £'000 | 2018 Ordinary shares | 2018 NAV per share pence | 2017 Net assets £'000 | 2017 Ordinary shares | 2017 NAV per share pence |
|----------------|--------------------------------|----------------------------|-----------------------------------|--------------------------------|----------------------------|-----------------------------------|
| Ordinary share | 61,551 | 36,057,095 | 170.70 | 40,385 | 32,643,069 | 123.72 |

13 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% |
| Sabien Technology Group plc | 6,784,632 | 6.2% |
| Rossllyn Data Technologies plc | 10,242,735 | 5.4% |
| Hardide plc | 80,171,531 | 4.9% |
| Water Intelligence plc | 395,370 | 3.3% |
| Byotrol plc | 12,212,663 | 3.0% |

14 Material Disposals of Unquoted Investments

There were no material disposals of unquoted investments during the year.

Notes to the Financial Statements

(continued)

15 Post Balance Sheet Events

The following transactions have taken place between 31 January 2018 and the date of this report:

- 3,305,216 shares were allotted raising net proceeds of £5.7m.
- 553,107 shares were bought back for an aggregate consideration of £0.8m.

On 8 March 2018 the Boards of Amati VCT 2 and Amati VCT reached agreement in respect of a recommended merger of the assets and liabilities of Amati VCT with Amati VCT 2, pursuant to a scheme of reconstruction and winding up of Amati VCT. Shareholders of both companies will have the opportunity to vote on the proposed merger at general meetings on 26 April 2018. If the merger is approved at both general meetings, the merger date will be 4 May 2018.

16 Related Parties

The Company retains Amati Global Investors as its Manager. Details of the agreement with the Manager are set out on page 13. The number of ordinary shares in the Company (all of which are held beneficially) by certain members of the management team are:

| | 31 January 2018 shares held |
|-----------------|-----------------------------------|
| Paul Jourdan | 276,762 |
| Douglas Lawson | 16,082 |
| David Stevenson | 9,120 |

The remuneration of the directors, who are key management personnel of the Company, is disclosed in the Directors' Remuneration Report on page 26, and in note 4 on page 39.

17 Segmental Reporting

The directors are of the opinion that the Company is engaged in a single segment of business, being investment business. The Company primarily invests in companies listed in the UK.

18 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.

Classification of financial instruments

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

| | 2018 (Book value) £'000 | 2018 (Fair value) £'000 | 2017 (Book value) £'000 | 2017 (Fair value) £'000 |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Assets at fair value through profit and loss | | | | |
| Investment portfolio | 58,273 | 58,273 | 38,878 | 38,878 |
| Assets measured at amortised cost | | | | |
| Receivable for investments sold | - | - | 96 | 96 |
| Accrued income and other debtors | 867 | 867 | 553 | 553 |
| Cash at bank | 2,823 | 2,823 | 1,255 | 1,255 |
| Liabilities measured at amortised cost | | | | |
| Payable for investments bought | (57) | (57) | (142) | (142) |
| Accrued expenses | (355) | (355) | (265) | (265) |
| Total for financial instruments | 61,551 | 61,551 | 40,375 | 40,375 |

Fixed asset investments (see note 8) are measured at fair value. For quoted securities this is generally the bid price or, in the case of SETS securities, the closing price. As explained in note 1, unquoted investments are valued in accordance with the 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. In respect of unquoted investments, these are valued by the directors using rules consistent with IPEV guidelines. Investments in TB Amati UK Smaller Companies Fund are based on the published fund mid price NAV. 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 and fully listed 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.

- Valuation technique; - "Level 3"

Level 3 fair values are measured using a valuation technique that is based on data from an unobservable market.

Notes to the Financial Statements

(continued)

18 Financial Instruments (continued)

Financial assets at fair value

| | Year ended 31 January 2018 | | | | Year ended 31 January 2017 | | | |
|-------------------|----------------------------|------------------|------------------|----------------|----------------------------|------------------|------------------|----------------|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| Equity shares | 57,828 | - | 398 | 58,226 | 37,649 | - | 691 | 38,340 |
| Preference shares | - | - | 47 | 47 | - | - | 47 | 47 |
| Loan stock | - | - | - | - | - | - | 491 | 491 |
| | 57,828 | - | 445 | 58,273 | 37,649 | - | 1,229 | 38,878 |

Level 3 financial assets at fair value

| | Year ended 31 January 2018 | | | | Year ended 31 January 2017 | | | |
|---|----------------------------|-------------------------------|------------------------|----------------|----------------------------|-------------------------------|------------------------|----------------|
| | 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 | 691 | 47 | 491 | 1,229 | 512 | 30 | 1,024 | 1,566 |
| Transfer to level 1* | (284) | - | - | (284) | - | - | - | - |
| Purchases | - | - | - | - | - | - | - | - |
| Disposal proceeds | (8) | - | (635) | (643) | - | - | - | - |
| Total net (losses)/gains recognised in the income statement | (1) | - | 144 | 143 | 179 | 17 | (533) | (337) |
| Closing balance at 31 January | 398 | 47 | - | 445 | 691 | 47 | 491 | 1,229 |

* During the year Mirriad Advertising plc was reclassified as Level 1 due to the admission of the ordinary shares to AIM.

19 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 uncertainty.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined on page 11. 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. 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 9 and 10. FRS 102 requires the directors to consider the impact of changing one or more of the inputs used as part of the valuation process to reasonable possible alternative assumptions.

As at 31 January 2018 99.24% (31 January 2017: 96.8%) of the Company's investments are traded. A 10% increase in stock prices as at 31 January 2018 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £5,783,000 (31 January 2017: £3,765,000); 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 2018 0.76% (31 January 2017: 3.2%) 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 2018 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £45,000 (31 January 2017: £123,000); 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.

20 Interest Rate Risk

Fixed rate

Three of the Company's financial assets are interest bearing at a fixed rate, no assets have a floating interest rate, all other assets are non-interest bearing. 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 £nil (31 January 2017: £491,000), the weighted average interest rate is nil% (31 January 2017: 8.0%) and the average period to maturity is 0 years (31 January 2017: 0.6 years).

Details of the Company's investments at the balance sheet date are provided on pages 9 and 10.

21 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 2018, the financial assets exposed to credit risk, representing convertible loan stock instruments, amounts due from brokers, accrued income and cash amounted to £2,827,000 (31 January 2017: £1,849,000). 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 2018 £'000 | 0-6 Months £'000 | Total 2017 £'000 |
|---------------------|------------------------|------------------------|------------------------|------------------------|
| Loan stock past due | - | - | 491 | 491 |

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 2018, 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 2018 or 31 January 2017.

Notes to the Financial Statements

(continued)

22 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 15. 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 2018, these investments were valued at £32,375,000 (31 January 2017: £14,815,000). The directors consider that frequently traded AIM investments with a market capitalisation of greater than £200m represent readily realisable securities.

23 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 structure of the Company's capital is described in note 11 and details of the Company's reserves are shown in the Statement of Changes in Equity on page 33.

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 (i.e. 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.

The Company is subject to externally imposed capital requirements:

- a. as a public limited company, the Company is required to have a minimum share capital of £50,000; and
- b. in accordance with the provisions of the Income Tax Act 2007, the Company as a Venture Capital Trust:
 - i) is required to make a distribution each year such that it does not retain more than 15% of income from shares and securities; and
 - ii) is required to derive 70% of its income from shares and securities.

These requirements are unchanged since last year and the Company has complied with them at all times.

Shareholder Information

Share Price

The Company's shares are listed on the London Stock Exchange. The bid price of the Company's shares can be found on Amati Global Investors' website:
<http://www.amatiglobal.com/avct2.php>

Net Asset Value per Share

The Company's net asset value per share as at 31 January 2018 was 170.70p. 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 Share Registrars Limited on 01252 821390 or email enquiries@shareregistrars.uk.com.

Financial Calendar

| | |
|-----------------|--|
| April 2018 | General Meeting |
| April 2018 | Annual report for the year ended 31 January 2018 to be circulated to shareholders |
| June 2018 | Annual General Meeting |
| September 2018 | Half-yearly Report for the six months ending 31 July 2018 to be circulated to shareholders |
| 31 January 2019 | Year-end |

Annual General Meeting

The Annual General Meeting of the Company will be held on Wednesday 27 June 2018 at 2.00pm at Milton Court Theatre, The Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 9BH. The notice of the meeting, together with the enclosed proxy form, is included on pages 51 to 56 of this report.

Corporate Information

Directors

Julian Ralph Avery
Mike Sedley Killingley
Susannah Nicklin

all of:

27/28 Eastcastle Street
London
W1W 8DH

Secretary

The City Partnership (UK) Limited
110 George Street
Edinburgh
EH2 4LH

Fund Manager

Amati Global Investors Limited
18 Charlotte Square
Edinburgh
EH2 4DF

VCT Tax Adviser

Philip Hare & Associates LLP
Suite C, First Floor
4-6 Staple Inn
Holborn London
WC1V 7QH

Registrar

Share Registrars
The Courtyard
17 West Street
Farnham
GU9 7DR

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

Rooney Nimmo
8 Walker Street
Edinburgh
EH3 7LH

Bankers

The Bank of New York Mellon SA/NV
London Branch
160 Queen Victoria Street
London
EC4V 4LA

Notice of Annual General Meeting

It is the Board's opinion that all resolutions are in the best interests of shareholders as a whole and the Board recommends that shareholders should vote in favour of all resolutions. Any shareholder who is in any doubt as to what action to take should consult an appropriate independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your Shares in the Company, please forward this document, together with the forms of proxy, to the purchaser, transferee, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of Amati VCT 2 plc (the "**Company**") will be held on Wednesday 27 June 2018 at Milton Court Theatre, The Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 9BH at 2.00pm (the "**Meeting**") for the transaction of the following business:

ORDINARY BUSINESS

To consider, and if thought fit, to pass the following Resolutions 1 to 9 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 2018 together with the Independent Auditor's Report thereon.
2. To approve the Directors' Annual Report on Remuneration for the financial year ended 31 January 2018.
3. 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 2018 at which financial statements are laid before the Company.
4. To authorise the directors to fix the remuneration of the auditor.
5. To re-elect Mike Killingley as a director of the Company.
6. To re-elect Susannah Nicklin as a director of the Company.
7. To re-elect Julia Henderson as a director of the Company.
8. To re-elect Peter Lawrence as a director of the Company.
9. To re-elect Brian Scouler 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

10. THAT in substitution for any existing authorities, the directors be and hereby are empowered pursuant to sections 570 and 573 of the Companies Act 2006 to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in section 560 of the Act) for cash pursuant to the authority given in accordance with section 551 of the Act by resolution 10 above as if section 561(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £1,250,000. The authority hereby conferred by this resolution shall expire (unless previously renewed or revoked) on the earlier of the date of the annual general meeting of the Company to be held in 2019 and the date which is 15 months after the date on which this resolution is passed.
11. 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 the Act, 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 2019 and the date which is 15 months after the date on which this Resolution is passed; and

Notice of Annual General Meeting

(continued)

- (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

18 April 2018

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 2.00pm on 25 June 2018 to Share Registrars, The Courtyard, 17 West Street, Farnham GU9 7DR. 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 25 June 2017 (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, Share Registrars, The Courtyard, 17 West Street, Farnham GU9 7DR 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. Online voting: alternatively, you may register your votes electronically by visiting the website of the Company's registrar. You will need to register in order to be able to use this service. To register, please visit www.shareregistrars.uk.com and click on "Register" under the title Account Log In. If you have already registered, log in and click on "My Meeting Votes".
6. Shareholders who hold their shares electronically may submit their votes through CREST, by submitting the appropriate and authenticated CREST message so as to be received by Share Registrars not later than 48 hours (excluding non-working days) before the start of the meeting. Instructions on how to vote through CREST can be found by accessing the following website: www.euroclear.com/CREST. Please see above at paragraph 5 for an alternative method of electronic submission of proxies.
7. If you are a CREST system user (including a CREST personal member) you can appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by Share Registrars (ID number 7RA36) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the Registrar is able to retrieve the message. CREST personal members or other CREST sponsored members should contact their CREST sponsor for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. As at 17 April 2018 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 38,809,204 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 17 April 2018 are 38,809,204.
9. 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.

10. 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.
11. 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.
12. The Register of Directors’ Interests will be available for inspection at the Meeting.
13. 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 510 7465 or
Emailing info@amatiglobal.com

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.

Amati VCT 2 plc

Form of Proxy for the Annual General Meeting on 27 June 2018

I/We

(block capitals please)

of

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

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, The Guildhall School of Music & Drama, Silk Street, Barbican, London EC2Y 9BH on 27 June 2018 at 2.00pm, notice of which was dated 18 April 2018, 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).

Resolution

| Resolution | For | Against | Vote Withheld |
|--|--------------------------|--------------------------|--------------------------|
| 1 To receive the Directors' Report and Financial Statements together with the Independent Auditor's Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 To approve the Directors' Annual Report on Remuneration | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 To re-appoint BDO LLP as auditor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 To authorise the directors to fix the remuneration of the auditor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 To re-elect Mike Killingley as a director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 To re-elect Susannah Nicklin as a director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 To re-elect Julia Henderson as a director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 To re-elect Peter Lawrence as a director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 To re-elect Brian Scouler as a director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 To renew the directors' authority to disapply pre-emption rights | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 11 To authorise the directors to buy back shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Signed

Date

2018

If you wish to attend the AGM please either complete the attendance indication on the enclosed covering letter or contact Rachel Le Derf at info@amatiglobal.com or by phone on 0131 503 9115 to register your interest.



Amati VCT 2 plc

Notes relating to Form of 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 Share Registrars Limited on 01252 821390 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. Online voting: alternatively, you may register your votes electronically by visiting the website of the Company's registrar. You will need to register in order to be able to use this service. To register, please visit www.shareregistrars.uk.com and click on "Register" under the title Account Log In. If you have already registered, log in and click on "My Meeting Votes".
9. 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 Share Registrars Limited, The Courtyard, 17 West Street, Farnham GU9 7DR or by fax to 01252 719232 or by scan and email to proxies@shareregistrars.uk.com to be received no later than 2.00pm on 25 June 2018.
10. 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.

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