

## BRITISH SMALLER COMPANIES VCT2 PLC (“the Company”)

### INTERIM MANAGEMENT STATEMENT For the quarter ended 30 September 2010

The Company presents its interim management statement for the quarter ended 30 September 2010. This constitutes the Company’s second interim management statement for the financial year ending 31 December 2010, as required by Rule 4.3 of the Disclosure and Transparency Rules. A copy of this interim management statement can be found at [www.yfm.co.uk](http://www.yfm.co.uk).

The unaudited net asset value per Ordinary share as at 30 September 2010 was 66.2p (30 June 2010: 70.1p). The 3.9p reduction in the quarter is primarily due to 2.0p per share final dividend paid 30 September 2010 along with a downward movement in the valuation of the unquoted portfolio.

The total return at 30 September 2010, calculated by reference to the net asset value per share and the cumulative dividends paid, is 92.2p per share compared to 94.1p at 30 June 2010.

The number of Ordinary shares in issue at 30 September 2010 was 17,837,519. There were no shares purchased or issued by the Company during the quarter.

Pursuant to the resolution passed at the General Meeting on 18 October 2010 the name of the Company was changed from British Smaller Technology Companies VCT2 plc to British Smaller Companies VCT2 plc with effect from 22 October 2010. A further resolution was passed at this meeting (as set out in the RNS announcement on 20 October 2010) for the Company to make market purchases of its own shares.

Net assets at 30 September 2010 comprised the following:

	£000	% of net assets
Unquoted investments at fair value	5,260	44.5
Quoted investments at bid price	905	7.7
Gilt investments	4,042	34.2
<b>Total financial assets at fair value</b>	<b>10,207</b>	<b>86.4</b>
Cash and cash equivalents	1,329	11.3
Other net current assets (liabilities)	275	2.3
<b>Net assets</b>	<b>11,811</b>	<b>100.0</b>

The ten largest investments by valuation at 30 September 2010 were as follows:

	Current cost £000	Value £000	% of net assets
Primal Pictures Limited	897	<b>1,184</b>	10.0
Digital Healthcare Limited	3,072	<b>1,156</b>	9.8
Immunobiology Limited	1,032	<b>1,002</b>	8.5
Bluebell Telecom Group	500	<b>500</b>	4.2
Waterfall Services Limited	250	<b>494</b>	4.2
Pressure Technologies plc	300	<b>350</b>	3.0
Patsystems plc	317	<b>311</b>	2.6
Harvey Jones Limited	389	<b>273</b>	2.3
Deep-Secure Ltd	500	<b>250</b>	2.1
RMS Group Holdings Limited	210	<b>140</b>	1.2
Top 10 investments	7,467	<b>5,660</b>	47.9
Other 11 investments	2,521	<b>505</b>	4.3
Gilt investments	3,974	<b>4,042</b>	34.2
<b>Total</b>	13,962	<b>10,207</b>	86.4

Quoted investments are carried at bid price at 30 September 2010, discounted for liquidity as appropriate. Unquoted investment are carried at fair value as at 30 September 2010 as determined by the directors.

During September 2010 the Company invested £500,000 into the newly formed Bluebell Telecom Group, based in Newcastle-Upon-Tyne, a business seeking to consolidate activities in the telecoms service sector.

Shortly after the period end the Company invested £267k as part of a £3m funding syndicate into medical technology business, Sirigen Group Limited.

During the three months ended 30 September 2010 the following significant investment disposals took place (all companies are unquoted except where otherwise indicated):

#### Partial Disposals

	Sale proceeds	Original cost	Carrying value at 31 Dec 2009
Name of company:	£000	£000	£000
Primal Pictures Limited	69	22	69
RMS Group Holdings Limited	182	171	138
DxS Limited	165	-	-
	<b>416</b>	<b>193</b>	<b>207</b>

#### Performance

In this period the Company has seen its total return, calculated by reference to the net asset value plus cumulative dividend paid, decrease by 1.9p to 92.2p per share, cumulative dividends representing 26.0p per share.

The net asset value currently comprises 45% in cash and gilts and as such the Company is well placed to take advantage of selective investment opportunities as they arise.

The discount of the share price to the net asset value per share has reduced to around 15% as a result of the introduction of the share buyback policy in October 2010.

## **Outlook**

Whilst significant uncertainty still exists, this period has also seen continuing signs of economic recovery benefiting a number of the portfolio businesses, with good realisation opportunities now available for quality businesses.

The number of new investment opportunities has increased, with more management teams seeking to expand and vendors prepared to sell, which your Board believes will translate into increasing investment opportunities over the short and medium term. This Company is well placed to take advantage of these investment opportunities as well as continuing to support its existing investments. To take full advantage of this market opportunity the board is seeking to increase the investment capacity of the Company via a linked offer together with the British Smaller Companies VCT plc over the coming months.

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