

# British Smaller Companies VCT 2 plc

## Unaudited Interim Results and Interim Management Statement

For the 6 months ended 30 June 2011

British Smaller Companies VCT 2 plc ("the Company") today announces its unaudited interim results for the six months to 30 June 2011.

### Chairman's Statement

In the six months to 30 June 2011 significant progress has been made by many portfolio businesses and this is now beginning to show through in improving valuations. Although the challenging economic times have continued many businesses have previously taken tough actions to become more efficient and several are now proactively seeking to exploit changes in their market conditions to gain market share and create value. The Company continues to support the portfolio and in April 2011 raised an additional £4.0 million funds pursuant to the linked offer with British Smaller Companies VCT plc, and remains well placed to take advantage of the growing investment activity levels.

The Total Return to Shareholders as at 30 June 2011 amounted to 96.0 pence per Ordinary Share, representing a year to date increase of 1.6 pence from the 94.4 pence per Ordinary Share at 31 December 2010 and an increase of 1.9 pence over the 12 month period since 30 June 2010. This Total Return includes cumulative dividends paid which now stand at 28.0 pence per Ordinary Share.

The Net Asset Value at 30 June 2011 is 68.0 pence per Ordinary Share (68.4 pence per Ordinary Share 31 December 2010, which reflects an increase in the portfolio values of 1.6 pence per Ordinary Share and payment of a 2.0 pence per Ordinary Share final dividend paid in June 2011.

### Interim Management Report

Against the backdrop of ongoing economic challenges, the Company remains focussed on building a strong and diversified portfolio and seeking to gradually improve levels of portfolio income. Significant positive steps have been made in this regard, with the past 6 months seeing 7.4% value growth from an increasingly diversified and well funded portfolio. Over the period to 30 June 2011 there have been no significant realisations from the portfolio. Some realisation opportunities may occur in the short term but these are likely to become more frequent and attractive as economic conditions improve, with several businesses offering the potential for significant value enhancement.

Over the six month period to 30 June 2011 a total of £1.2 million has been invested into 7 businesses. A further investment of £133,000 was made into Sirigen Group Limited, the second and final tranche of a £3.0 million funding round agreed last year, of which the Company invested £400,000. This investment has enabled Sirigen to further the technical development of its innovative fluorescent labelling products which can significantly improve the sensitivity of a wide range of diagnostic tests.

The remaining 6 investments were made into AiM quoted businesses which were selected to provide a mix of capital growth and income via dividends. May Gurney Integrated Services plc (£212,000) manages infrastructure support services, Iomart Group plc (£198,000) provides web-based hosting services, Tikit Group plc (£198,000) is a provider of consulting and IT services to legal firms, Group NBT plc (£197,000) administers domain names and various internet services, 2ergo Group plc (£197,000) is a provider of marketing solutions via mobile devices and EKF Diagnostics plc (£77,000) manages a wider range of medical diagnostic services.

Excluding these new investments and the £42,000 value growth in gilts, the opening portfolio value has grown by £534,000 (7.7%) over the six month period to 30 June 2011. In addition a further £23,000 has been recognised in respect of the DxS Ltd deferred consideration and is included within the debtors balance at 30 June 2011. Network security provider, Deep-Secure Ltd, has now delivered a profitable first year since the Company's investment in the buyout in December 2009 and we anticipate further profit growth in 2011 with a strong order pipeline. Cambridge Cognition Limited has established a profitable business model for its diagnostic products for use in clinical trial and is now seeking to roll out products for wider clinical applications. To complement its core reference products, Primal Pictures Limited has concluded the development of its new anatomy and physiology online training product, which has received significant market interest with a number of customer trials underway.

There has been no change to the principal risks and uncertainties facing the Company since the publication of the financial statements for the year ended 31 December 2010. In summary, the principal risks are:

- Investment and strategic;
- Loss of approval as a Venture Capital Trust;
- Regulatory;
- Reputational;
- Operational;
- Financial;
- Market risk; and
- Liquidity risk.

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2010 on page 21, a copy of which can be found at [www.yfmep.com](http://www.yfmep.com)

## Financial Results

The result for the six months ended 30 June 2011 produced a revenue profit before tax of £2,000 and a capital profit before tax of £473,000 (2010: profit of £10,000 and loss of £119,000 respectively). It is pleasing to see a strong improvement in the aggregate value of investments over the 6 months to 30 June 2011 of £576,000 (2010: loss of £41,000). The income from the portfolio of £178,000 also represents an increase of £15,000 on the same period in 2010 and the fund manager will continue to make investments to gradually improve the income generation from the portfolio.

The movement in Net Asset Value is as follows:

	Pence/share
31 December 2010	68.4
Dividends paid in period	(2.0)
Net Increase in value	1.6
<hr/> 30 June 2011	<hr/> 68.0

Cash and investment in gilts at 30 June 2011 totalled £6.85 million (June 2010: £5.84 million), representing 43% (June 2010: 47%) of Net Asset Value before taking account of any interim dividend. The Board considers that in the short term this is sufficient to support the current portfolio and to continue its investment strategy in selective new opportunities.

## Shareholder Relations

The six months to 30 June 2011 has seen the Company's investment capacity increase through the issue of 6,268,100 shares pursuant to the recent linked offer with British Smaller Companies VCT plc, raising £4.4 million of gross proceeds. In addition the Company issued 3,762 shares pursuant to the Dividend re-investment scheme on 10th June 2011. The Board believes that the coming 12-24 months will see increasing investment opportunities and will consider the opportunity to raise further funding in the months ahead to enable the Company to take advantage of this and continue to build a strong, balanced portfolio.

The Board has today issued a circular calling a general meeting of the company to propose a resolution to again re-instate a share buyback policy. In October 2010 a buyback policy was introduced, expiring at the date of the AGM. As has been previously reported whilst a significant majority of Shareholders voted in favour of continuing the policy it would not have been sufficient to carry the vote and the resolution was withdrawn. Your Board believes that the re-instatement of the policy is essential for the Company for the following reasons: -

- i) It provides Shareholders with liquidity in order that they can realise their investment
- ii) The absence of a policy prevents significant further fundraising with all the benefits that can bring

- iii) It supports a share price that the Board believes reflects the quality of the underlying net assets

As a consequence the Board strongly recommends the re-instatement of the buyback policy.

The Board remains committed to the objective of achieving a consistent dividend stream. Following the 2010 year end dividend of 2.0 pence per Ordinary Share paid on 10 June 2011, this commitment has been continued in these interim results with your Board determining that an interim dividend of 2.0 pence per Ordinary Share will be paid on 8 September 2011 to Shareholders on the register as at 12 August 2011.

## Regulatory and other matters

The Government has recently launched a consultation document in respect of venture capital trusts and EIS schemes. The underlying principles of the consultation and proposed changes all seem to support the activities of the Company which has always sought to invest in the UK's smaller companies which can generate economic growth and provide investment return. This remains the core of the investment strategy and the Company's fund manager will be responding to this consultation.

## Outlook

Whilst a number of challenges remain, there are signs of improving economic conditions and it is encouraging to see many portfolio businesses reporting improving results. Overall the portfolio remains well funded with most businesses having taken the opportunity to improve efficiency or change their strategy to maximise the new market opportunities they now see. This Company is well placed to continue to support the existing portfolio companies.

The Board remains of the opinion that the forthcoming period will see many good investment opportunities for the portfolio businesses and for new investments. It was with this in mind that we increased the investment capacity of the Company and we will consider the opportunity to further increase funds in the coming months.

Richard Last

3 August 2011

# Statement of Comprehensive Income

For the 6 months ended 30 June 2011

	Notes	Unaudited 6 months ending 30 June 2011			Unaudited 6 months ending 30 June 2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments		-	7	7	-	35	35
Gains (Losses) on investments held at fair value		-	576	576	-	(41)	(41)
Income	2	178	-	178	163	-	163
Administrative expenses:							
Fund Management fee		(36)	(110)	(146)	(38)	(113)	(151)
Other expenses		(140)	-	(140)	(115)	-	(115)
		(176)	(110)	(286)	(153)	(113)	(266)
<b>Profit (loss) before taxation</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
Taxation	3	-	-	-	-	-	-
<b>Profit (loss) for the period attributable to equity Shareholders</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
<b>Total comprehensive income for the period attributable to equity Shareholders</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
<b>Basic and diluted earnings (loss) per Ordinary share</b>	5	<b>0.01p</b>	<b>2.32p</b>	<b>2.33p</b>	<b>0.06p</b>	<b>(0.67)p</b>	<b>(0.62)p</b>

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

Balance Sheet  
As at 30 June 2011

	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010	Audited year ended 31 December 2010
	£000	£000	£000
Notes			
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	8,684	6,300	6,939
Fixed income government securities	2,839	4,044	3,980
Financial assets at fair value through profit or loss	11,524	10,344	10,919
Trade and other receivables	281	237	259
	<b>11,805</b>	10,581	11,178
<b>Current assets</b>			
Trade and other receivables	173	196	193
Cash and cash equivalents	4,009	1,799	509
	<b>4,182</b>	1,995	702
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(98)	(78)	(51)
<b>Net current assets</b>	<b>4,084</b>	1,917	651
<b>Net assets</b>	<b>15,888</b>	12,498	11,829
<b>Shareholders' equity</b>			
Share capital	2,412	1,784	1,785
Share premium	4,346	806	810
Capital redemption reserve	88	88	88
Merger reserve	5,525	5,525	5,525
Other reserve	2	2	2
Capital reserve	2,964	4,471	3,587
Investment holding losses	(4,135)	(4,950)	(4,763)
Special reserve	4,352	4,786	4,463
Revenue reserve	334	(14)	332
<b>Total Shareholders' equity</b>	<b>15,888</b>	12,498	11,829
<b>Net Asset Value per Ordinary share</b>	6	70.1p	68.4p

Signed on behalf of the Board

Richard Last

Chairman

3 August 2011

## Statement of Changes in Equity

For the 6 months ended 30 June 2011 (unaudited)

	Share capital	Share premium account	Merger reserve	*Other reserves	Capital reserve	Investment holding gains (losses) reserve	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2009</b>	<b>1,664</b>	<b>69</b>	<b>5,525</b>	<b>90</b>	<b>4,442</b>	<b>(4,802)</b>	<b>4,786</b>	<b>332</b>	<b>12,106</b>
<i>Revenue return for the period</i>	-	-	-	-	-	-	-	10	10
<i>Capital expenses</i>	-	-	-	-	(113)	-	-	-	(113)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	-	(41)	-	-	(41)
<i>Realisation of investments in the period</i>	-	-	-	-	35	-	-	-	35
Total comprehensive income for the period	-	-	-	-	(78)	(41)	-	10	(109)
<i>Issue of share capital</i>	120	788	-	-	-	-	-	-	908
<i>Issue costs</i>	-	(51)	-	-	-	-	-	-	(51)
<i>Dividends</i>	-	-	-	-	-	-	-	(356)	(356)
Total transactions with shareholders	120	737	-	-	-	-	-	(356)	501
Realisation of prior year investment holding gains	-	-	-	-	107	(107)	-	-	-
<b>At 30 June 2010</b>	<b>1,784</b>	<b>806</b>	<b>5,525</b>	<b>90</b>	<b>4,471</b>	<b>(4,950)</b>	<b>4,786</b>	<b>(14)</b>	<b>12,498</b>
<i>Revenue return for the period</i>	-	-	-	-	-	-	-	-	-
<i>Capital expenses</i>	-	-	-	-	(118)	-	-	-	(118)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	-	(211)	-	-	(211)
<i>Gain on disposal of investments in the period</i>	-	-	-	-	335	-	-	-	335
Total comprehensive income for the period	-	-	-	-	217	(211)	-	-	6
<i>Issue of share capital</i>	1	4	-	-	-	-	-	-	5
<i>Issue costs</i>	-	-	-	-	-	-	-	-	-
<i>Purchase of own shares</i>	-	-	-	-	-	-	(323)	-	(323)
<i>Dividends</i>	-	-	-	-	(703)	-	-	346	(357)
Total transactions with shareholders	1	4	-	-	(703)	-	(323)	346	(675)
Realisation of prior year investment holding gains	-	-	-	-	(398)	398	-	-	-
<b>At 31 December 2010</b>	<b>1,785</b>	<b>810</b>	<b>5,525</b>	<b>90</b>	<b>3,587</b>	<b>(4,763)</b>	<b>4,463</b>	<b>332</b>	<b>11,829</b>

Statement of Changes in Equity  
For the 6 months ended 30 June 2011 (unaudited) (continued)

	Share capital	Share premium account	Merger reserve	*Other reserves	Capital reserve	Investment holding gains (losses) reserve	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2010</b>	<b>1,785</b>	<b>810</b>	<b>5,525</b>	<b>90</b>	<b>3,587</b>	<b>(4,763)</b>	<b>4,463</b>	<b>332</b>	<b>11,829</b>
<i>Revenue Loss for the period</i>	-	-	-	-	(110)	-	-	2	(108)
<i>Capital expenses</i>	-	-	-	-	-	-	-	-	-
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	576	-	-	576
<i>Gain on disposal of investments in the period</i>	-	-	-	-	7	-	-	-	7
Total comprehensive income for the period	-	-	-	-	(103)	576	-	2	475
<i>Issue of ordinary share capital</i>	627	3,582	-	-	-	-	-	-	4,209
<i>Issue costs of Ordinary shares</i>	-	(46)	-	-	-	-	-	-	(46)
<i>Purchase of own shares</i>	-	-	-	-	-	-	(111)	-	(111)
<i>Dividends</i>	-	-	-	-	(468)	-	-	-	(468)
Total transactions with shareholders	627	3,536	-	-	(468)	-	(111)	-	3,584
Realisation of prior year investment holding gains	-	-	-	-	(52)	52	-	-	-
<b>At 30 June 2011</b>	<b>2,412</b>	<b>4,346</b>	<b>5,525</b>	<b>90</b>	<b>2,964</b>	<b>(4,135)</b>	<b>4,352</b>	<b>334</b>	<b>15,888</b>

\* Other reserves include the capital redemption reserve and treasury reserve, which are non-distributable.



Statement of Cash Flows  
For the 6 months ended 30 June 2011

	<b>Unaudited 6 months ended 30 June 2011  £000</b>	Unaudited 6 months ended 30 June 2010  £000	Audited year ended 31 December 2010  £000
<b>Net cash (outflow) inflow from operating activities</b>	<b>(40)</b>	(207)	(312)
<hr/>			
<b>Cash flows from investing activities</b>			
Purchase of financial assets at fair value through profit or loss	<b>(2,352)</b>	(1,767)	(3,135)
Proceeds from sale of financial assets at fair value through profit or loss	<b>2,307</b>	932	1,525
Deferred consideration	-	-	301
<b>Net cash (used in) from investing activities</b>	<b>(45)</b>	(835)	(1,309)
<hr/>			
<b>Cash flows from (used in) financing activities</b>			
Issue of Ordinary shares	<b>4,210</b>	908	913
Cost of Ordinary shares	<b>(46)</b>	(15)	(51)
Purchase of own shares	<b>(111)</b>	-	(323)
Dividends paid	<b>(468)</b>	(356)	(713)
<b>Net cash from (used in) financing activities</b>	<b>3,585</b>	537	(174)
<hr/>			
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,500</b>	(505)	(1,795)
<b>Cash and cash equivalents at the beginning of the period</b>	<b>509</b>	2,304	2,304
<b>Cash and cash equivalents at the end of the period</b>	<b>4,009</b>	1,799	509

## Notes to the Unaudited Financial Statements

### 1. General information, basis of preparation and principal accounting policies

These half year statements have been approved by the directors whose names appear at note 7, each of whom has confirmed that to the best of his knowledge:

- The Interim Management Report includes a fair review of the information required by rules 4.2.7 and 4.2.8 of the Disclosure Rules and the Transparency Rules.
- The half year statements comply with IAS 34 'Interim financial reporting' and the Disclosure and Transparency Rules of the Financial Services Authority.

The half year statements are unaudited and have not been reviewed by the auditors pursuant to the Auditing Practices Board (APB) guidance on Review of Interim Financial Information. They do not constitute full financial statements as defined in section 435 of the Companies Act 2006. The comparative figures for the year ended 31 December 2010 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2010. Those accounts were reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

The accounting policies and methods of computation followed in the half year statements are the same as those adopted in the preparation of the audited financial statements for the year ended 31 December 2010.

The financial statements for the year ended 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 ("SORP") is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

Other standards and interpretations which have been issued and are effective for this accounting period but are not currently relevant for the Company are IFRS 1 (Revised), IFRS 2 (Amendment), IFRS 3 (Revised), IFRS 5 (amendment), IAS 27 (Revised), IAS 32 (Amendment) and IFRICs 17 and 18.

## Notes to the Unaudited Financial Statements

### 2. Income

	<b>Unaudited 6 months ended 30 June 2011  £000</b>	<b>Unaudited 6 months ended 30 June 2010  £000</b>
Income from investments		
- Dividends from unquoted companies	<b>3</b>	3
- Dividends from AIM quoted companies	<b>20</b>	13
	<hr/> <b>23</b>	16
- Interest on loans to unquoted companies	<b>77</b>	57
- Fixed interest Government securities	<b>69</b>	83
	<hr/> <b>169</b>	156
Income from investments held at fair value through profit or loss	<b>169</b>	156
Interest on bank deposits	<b>9</b>	7
	<hr/> <b>178</b>	163
	<hr/> <b>178</b>	163

### 3. Taxation

	Unaudited 6 months ended 30 June 2011			Unaudited 6 months ended 30 June 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit (loss) before taxation	2	473	475	10	(119)	(109)
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2010: 21%)	-	95	95	2	(25)	(23)
<b>Effect of:</b>						
UK dividends received	(5)	-	(5)	(3)	-	(3)
Non taxable profits on investments	-	(117)	(117)	-	1	1
Excess management expenses	5	22	27	1	24	25
Tax (credit)/ charge	-	-	-	-	-	-

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

Deferred tax assets in respect of losses have not been recognised as management do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered.

Due to the Company's status as a venture capital trust, and the continued intention to meet the conditions required to comply with Chapter 3 Part 6 of the Income Tax Act 2007, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

#### 4. Dividends

Amounts recognised as distributions to equity holders in the period:

	<b>Unaudited</b>			Unaudited			Audited		
	<b>6 months ended 30 June 2011</b>			6 months ended 30 June 2010			Year ended 31 December 2010		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	Revenue	Capital	Total	Revenue	Capital	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000	£000	£000	£000
Final paid - 2.0p per share paid 10 June 2011 (2010: 2.0p)	-	467	<b>467</b>	-	356	356	-	356	356
Interim paid – 2.0p per share paid 30 September 2010	-	-	-	-	-	-	10	347	357
	-	<b>467</b>	<b>467</b>	-	356	356	10	703	713

An interim dividend of 2.0 pence per Ordinary Share, amounting to £467,185, is proposed. The dividend has not been recognised in these half year financial statements as the obligation did not exist at the balance sheet date.

#### 5. Basic and Diluted Earnings (loss) per Ordinary Share

The basic and diluted earnings per Ordinary Share is based on the profit attributable to equity Shareholders of £475,000 (30 June 2010: loss of £109,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of shares in issue during the period.

The basic and diluted revenue return per Ordinary Share is based on the revenue profit attributable to equity Shareholders of £2,000 (30 June 2010: £10,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of shares in issue during the period.

The basic and diluted capital return per Ordinary Share is based on the capital gain attributable to equity Shareholders of £473,000 (30 June 2010: loss of £119,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of shares in issue during the period.

The Company has no securities that would have a dilutive effect and hence basic and diluted earnings (loss) per Ordinary Share are the same.

## 6. Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per Ordinary Share is calculated on attributable assets of £15,888,000 (30 June 2010 and 31 December 2010: £12,498,000 and £11,829,000 respectively) and 23,359,278 (30 June 2010 and 31 December 2010: 17,837,519 and 17,278,696 respectively) shares in issue at the period end.

The Company has no securities that would have a dilutive effect and hence basic and diluted Net Asset Value per Ordinary Share are the same.

## 7. Directors

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

## 8. Other Information

Copies of the interim report can be obtained from the Company's registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ or from the fund manager's website: [www.yfmep.com](http://www.yfmep.com)

**For further information please contact:**

<b>David Bell</b>	<b>YFM Private Equity</b>	<b>Tel: 0207 887 7522</b>
<b>Jeff Keating</b>	<b>Singer Capital Markets</b>	<b>Tel: 0203 205 7500</b>