British Smaller Companies VCT2 plc
Interim Management Statement
For the quarter ended 30 September 2015

British Smaller Companies VCT2 plc (the "Company") presents its interim management statement for the quarter ended 30 September 2015. The statement also includes relevant financial information between the end of the quarter and the date of this statement. A copy of this interim management statement can be found at www.bscfunds.com.

Overview

The Company has continued to make good progress in the quarter with total return rising to 109.1 pence per ordinary share. This is an increase of 2.7 pence per ordinary share in the first nine months of the year; equivalent to 4.3% of the opening Net Asset Value ('NAV').

Since the March 2015 Budget, when prospective changes to the rules impacting venture capital trusts were announced, there has been some uncertainty about the timing and precise detail of the changes. As each new investment that is made has required HMRC advanced assurance this has resulted in a considerable slowdown of new investment activity until clarity over the proposed changes became clear. Consequently no new investments were completed between 25 March 2015 and the quarter end.

However, in advance of the new Finance Bill, which received Royal Assent on 18 November 2015, advanced assurances have again begun to be received. As a consequence since the quarter end the Company has completed 1 new investment of £2.0 million into KeTech Enterprises Limited and two follow-on investments totalling £0.6 million. A further two new investments totalling £1.7 million and one follow-on investment of £0.2 million have also been approved by the Board bringing investment activity levels since the end of the period to £4.5 million. This level of activity is more in line with the levels that have been experienced prior to the March 2015 budget.

Performance

	30 September 2015	Movement	30 June 2015
Net Assets (£m)	**53.3**	**(0.8)**	**54.1**
NAV per share (PPS)	**61.1**	**(1.4)**	**62.5**
Cumulative dividends paid (PPS)	**48.0**	**2.0**	**46.0**
Total Return (PPS)	**109.1**	**0.6**	**108.5**
Shares in issue	**87,262,575**	**581,009**	**86,681,566**

The total return at 30 September 2015, calculated by reference to the NAV per ordinary share and the cumulative dividends paid per ordinary share, was 109.1 pence per ordinary share compared to 108.5 pence per ordinary share at 30 June 2015. Following payment of a 2.0 pence per ordinary share interim dividend cumulative dividends paid have increased to 48.0 pence per ordinary share (30 June 2015: 46.0 pence per ordinary share).

The unaudited NAV per ordinary share as at 30 September 2015 was 61.1 pence per ordinary share (30 June 2015: 62.5 pence per ordinary share) representing a decrease of 1.4 pence per ordinary share. The decrease in NAV per ordinary share is due to the interim dividend of 2.0 pence per ordinary share paid on 28 September 2015, offset by the net upward movement in the overall portfolio valuation.

Dividends and shares in issue

The number of ordinary shares in issue at 30 September 2015 was 87,262,575 (30 June 2015: 86,681,566). In addition, at 30 September 2015 the Company held 2,128,003 ordinary shares in treasury (30 June 2015: 2,128,003).

On 28 September 2015 the Company paid an interim dividend of 2.0 pence per ordinary share. Pursuant to its dividend re-investment scheme and on the same date the Company issued 581,009 ordinary shares at a price of 57.48 pence per ordinary share.

Net assets

Net assets at 30 September 2015 comprised the following:

	£000	**% of net assets**
Unquoted investments at fair value	**31,229**	58.6
Quoted investments at bid price	**2,641**	5.0
Total investments	**33,870**	63.6
Cash and cash equivalents	**18,703**	35.1
Other net current assets	**711**	1.3
Net assets	**53,284**	100.0

The investment portfolio at 30 September 2015 was comprised as follows:

	Valuation £000	Valuation as a % of net assets
Intelligent Office	**3,059**	5.7
Mangar Health Limited	**2,026**	3.8
DisplayPlan Holdings Limited	**1,860**	3.5
Gill Marine Holdings Limited	**1,764**	3.3
GTK (Holdco) Limited	**1,470**	2.8
ACC Aviation	**1,379**	2.6
Business Collaborator Limited	**1,340**	2.5
Immunobiology Limited	**1,311**	2.5
Harvey Jones Holdings Limited	**1,301**	2.4
Springboard Research Holdings Limited	**1,241**	2.3
	16,751	31.4
Other investments	**17,119**	32.2
Total investments	**33,870**	63.6

During the quarter to 30 September 2015 the Company made two investments totalling £0.4 million: one follow-on investment of £0.3 million into Immunobiology Limited and £0.1 million of additional investment into AIM listed Brady plc.

In the quarter to 30 September 2015 the realisation and repayment of investments generated cash proceeds of £0.2 million. Since the end of the quarter the Company has realised its investment in Insider Technologies for proceeds of £0.8 million, an increase of £0.3 million over the value at the beginning of the financial year and received loan repayments of £0.4 million.

Portfolio Performance

Over the quarter to 30 September 2015 aggregate unrealised portfolio valuations have increased by £0.4 million. This included a £0.2 million uplift in respect of the investment in Insider Technologies, which as above was realised following the quarter end.

The Board continues to follow its policy of maintaining a diversified portfolio. At 30 September 2015, only one investment represented more than 5 per cent of the Company's NAV.

Regulatory Changes

By way of background. The changes that have been introduced this year to the regulations surrounding VCTs (and EIS) have arisen as a result of an EU review of the use of state-aided investment. The EU has a set of guidelines, Risk Capital Finance (RCF) which sets out the operating framework for investment schemes that receive state aid. In the case of VCTs the income tax reliefs received are state aid. These guidelines were the subject of some revision with the latest set coming into force on 1 January 2015.

The UK legislation that has now been enacted as part of the Finance Bill includes changes to reflect the requirements of the RCF and VCTs have to comply with both the UK legislation and the RCF and are subject to review by both HMRC and HM Treasury and the EU.

The principal changes that have been made are to the definitions of Qualifying Investments and what VCTs are able to do with non-qualifying money.

In summary Qualifying Investments can be made into both younger companies, those less than ten years old if classed as knowledge intensive, or seven years old if not and older companies where the VCT investment is either not the first state aided investment the company has received or that the VCT investment is “substantial in relation to the size of the company” and the monies are used to fund the company’s growth plans.

There are also restrictions on the use of funds prior to them being invested in Qualifying Investments; this is known in the legislation as the liquidity test. This is restricted to shares or securities on a regulated market; certain liquid funds and of course cash. Notably AIM is excluded as it is not a regulated market, which means new non-qualifying investments on AIM will not be allowed.

Impact of the Regulatory Changes

Existing portfolio

The new rules apply to all investments from 18 November 2015, the date of Royal Assent. The Board has worked closely with its Adviser to review the existing portfolio against the new legislation and does not believe that there will be any material impact on the portfolio.

New investments

The Company has always had a policy of investing in small companies to support their growth plans and will be able to continue to follow this policy under the new legislation. The Board believes that the overall pool of potential investments available to the VCT market as a whole will be restricted from previous levels, which is the purpose of the legislative changes.

The Board has taken a cautious approach to the new legislation with a policy of only completing investments on which HMRC advanced assurance is given, which itself is only granted for investments that meet the Qualifying Investment test. It is encouraging that as the legislation has been finalised advanced assurances are now being given and we are seeing the flow of investment activity resume. HMRC’s detailed guidance is planned to be issued shortly and it is expected that this will further increase the number of advanced assurances that can be given.

Fundraising

With the Company now receiving advanced assurances from HMRC in respect of new investments and on reviewing the pipeline of current opportunities the Board has determined that in the current tax year it will launch a non-prospectus share offer. Details will be made available to existing shareholders in the near future. The offer is limited, by EU Regulation, to €5.0 million which is anticipated to equate approximately to £3.5 million.

Outlook

The Board continues to see opportunities to add value to growing businesses across a variety of sectors, with a number of investments at an advanced stage. The portfolio continues to generate good returns and a number of investments are well positioned to realise value for shareholders in the medium term.

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For further information please contact:

David Hall	YFM Private Equity Limited	Tel: 0113 244 1000
Gillian Martin	Nplus1 Singer Advisory LLP	Tel: 0207 496 3000