

British Smaller Companies VCT2 plc

A blue circular graphic with a white border containing the text 'Interim Report' and the period covered by the report.

Interim Report

for the
six months ended
30 June 2016

CONTENTS

Financial Overview

Financial Calendar	1
Financial Highlights	2
Financial Summary	

Strategic Report

Chairman's Statement	3
Objectives and Strategy	5
Investment Review	6
Investment Portfolio	7
Our Portfolio at a Glance	12
Principal Risks and Uncertainties	13
Directors' Responsibilities Statement	13

Financial Statements

Unaudited Statement of Comprehensive Income	14
Unaudited Balance Sheet	15
Unaudited Statement of Changes in Equity	16
Unaudited Statement of Cash Flows	19
Explanatory Notes to the Unaudited Condensed Financial Statements	20

Advisers to the Company

28

FINANCIAL CALENDAR

Results Announced	11 August 2016
Ex-Dividend Date	25 August 2016
Record Date	26 August 2016
DRIS Election Date	12 September 2016
Dividend Paid	26 September 2016

FINANCIAL HIGHLIGHTS



111.5
pence

111.5p Total Return

Since 31 December 2015 your Company's total return has increased by 0.6 pence, from 110.9 pence per ordinary share to 111.5 pence per ordinary share, which includes cumulative dividends paid of 50.5 pence per ordinary share.



£2.4
million

£2.4 million Disposal Proceeds

In the six months proceeds from the realisation of portfolio investments of £2.4 million were generated, crystallising a gain over cost of £0.7 million.



£3.5
million

£3.5 million Fundraising

Offer for subscription fully subscribed and closed within 15 days of launch, raising £3.5 million.



50.5
pence

50.5p Cumulative Dividends Paid

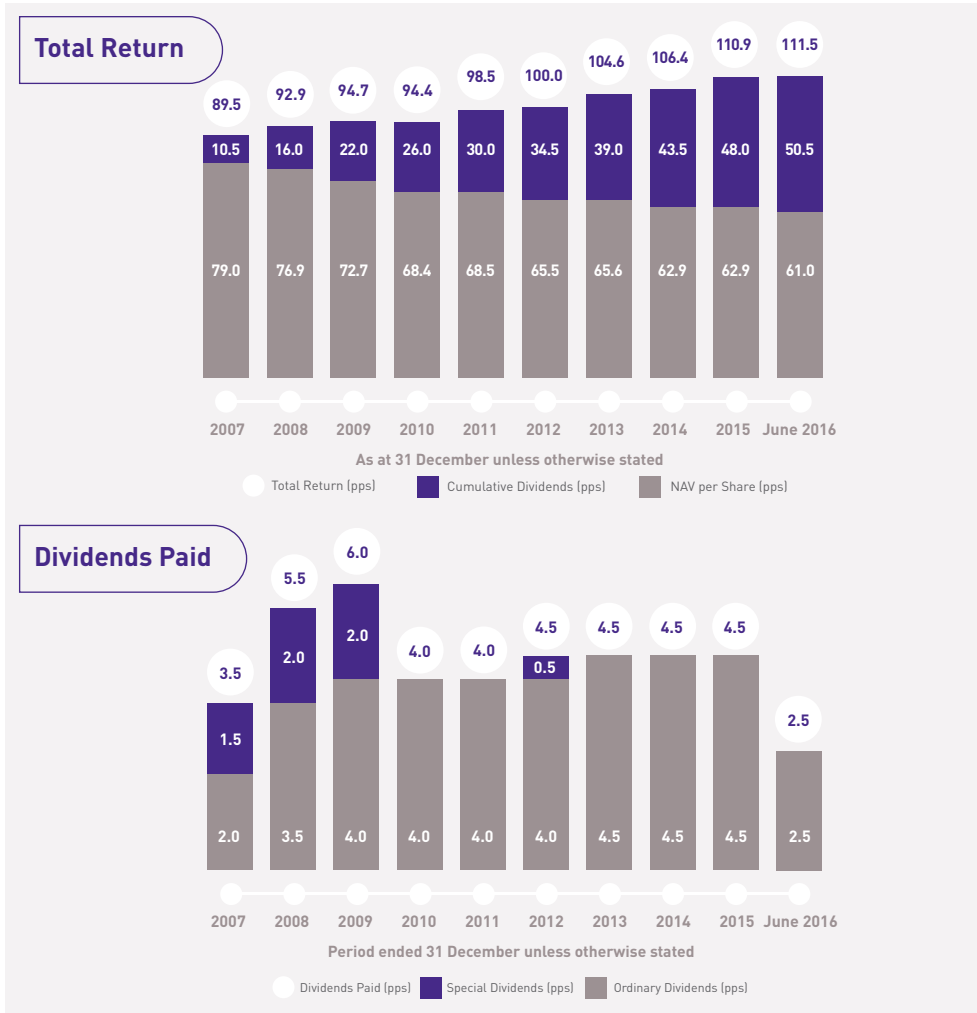
A final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2015 (year ended 31 December 2014: 2.5 pence per ordinary share) was paid on 9 May 2016 taking cumulative dividends paid since the Company's inception to 50.5 pence per ordinary share.

FINANCIAL SUMMARY

for the six months ended 30 June 2016

The commonly used benchmarks of performance for VCTs are total return, calculated as cumulative dividends paid plus net asset value, and dividends paid.

The charts below show how the total return of your Company, calculated by reference to the net asset value per ordinary share plus cumulative dividends paid per ordinary share of 50.5 pence per ordinary share, has developed over the last ten years.



The average dividend paid over the last five years (including the 0.5 pence special dividend paid in 2012) was 4.5 pence per ordinary share, equivalent to a 7.4 per cent yield per annum.

CHAIRMAN'S STATEMENT

Your Company's portfolio delivered a total return of 2.1 per cent of its opening value, with income from investments 10.8 per cent higher than the same period last year.

Net asset value increased by 0.6 pence per ordinary share to 63.5 pence per ordinary share, prior to the payment of the final dividend of 2.5 pence per ordinary share for the year ended 31 December 2015 and your Company's total return increased to 111.5 pence per ordinary share.

Investment rate

Following the publication of HMRC's guidance notes in May 2016 the flow of advance approvals from HMRC for new investments increased towards the end of the period. One investment of £0.9 million was completed into Sipsynergy, a market-leading cloud collaboration solutions provider, and a further two potential investments have subsequently received advance assurance.



Financial Results and Dividends

The movement in net asset value per ordinary share and the dividends paid are set out in the table below:

Net Asset Value

	Pence per ordinary share	£000
NAV at 1 January 2016	62.9	54,850
Net underlying increase in portfolio	0.5	448
Net income	0.3	310
Purchase of own shares	-	(138)
Issue of new shares	(0.2)	3,906
	0.6	4,526
Dividends paid	(2.5)	(2,322)
	(1.9)	2,204
NAV at 30 June 2016	61.0	57,054
Cumulative dividends paid	50.5	
Total Return: at 30 June 2016	111.5	
at 31 December 2015	110.9	

Chairman's Statement (continued)

The portfolio produced a value gain of £0.4 million, representing a 1.2 per cent increase over the opening value and equivalent to an increase in value for shareholders of 0.5 pence per ordinary share.

During the period a final dividend in respect of the year ended 31 December 2015 of 2.5 pence per ordinary share was paid, bringing the cumulative dividends paid to date to 50.5 pence per ordinary share.

The longer-term objective is to produce a consistent and, where possible, increasing dividend stream while maintaining capital value. Your Board has proposed an interim dividend of 2.0 pence per ordinary share for the period to 30 June 2016. When combined with the final dividend in respect of the year ended 31 December 2015, dividends paid in the current financial year total 4.5 pence per ordinary share (2015: 4.5 pence per share). The interim dividend will be paid on 26 September 2016 to shareholders on the register at 26 August 2016.

Shareholder Relations

As part of the Board's continuing dialogue with shareholders, the 21st shareholder workshop was held in conjunction with British Smaller Companies VCT plc at the British Library on 17 May 2016, with over 200 attendees. There were presentations from the managing directors of two of our newest investments, Ness (Holdings) Limited and KeTech Enterprises Limited, David Hall and David Bell from the Investment Adviser, as well as Wyndham North of HM Treasury.

Your Company's electronic communications policy, whereby documents such as the annual report are disseminated via the website www.bscfunds.com rather than by post, has saved on printing costs as well as being more

environmentally friendly. I am pleased to report that this policy has been well received, with 83 per cent of shareholders now receiving communications in this way.

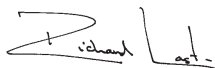
The website www.bscfunds.com is refreshed on a regular basis, with the emphasis on providing a comprehensive level of information in a user friendly format.

Outlook

Although the medium to long-term impact of the UK's decision to leave the European Union remains unclear, we are confident that the businesses in which your Company has invested will maintain or adapt their growth strategies as appropriate, with many exporters seeing a potential short-term benefit from the devaluation of sterling against several major currencies.

Whilst the introduction of the new VCT rules has imposed a number of restrictions on the types of companies and transactions in which your Company can invest, we remain positive that the Investment Adviser will continue to be able to source high quality opportunities across its office network which comply with these rules.

Notwithstanding the recent changes in legislation, your Board remains committed to continuing to build and further diversify its portfolio of private company investments, and pursuing an objective of paying a regular dividend.



Richard Last
Chairman

11 August 2016

OBJECTIVES AND STRATEGY

The Company's objective is to provide investors with an attractive long-term tax free dividend yield whilst seeking to maintain and build the capital value of their investment and maintain the Company's status as a venture capital trust.

The investment strategy of the Company is to create a portfolio with a mix of companies operating in traditional industries and those that offer opportunities in the development and application of innovation.

The Company invests in UK businesses across a broad range of sectors including but not limited to Software, IT & Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare in VCT qualifying and non-qualifying securities.

INVESTMENT REVIEW

The Company's portfolio at 30 June 2016 had a value of £35.8 million consisting of £34.0 million (95 per cent) in unquoted investments and £1.8 million (5 per cent) in quoted investments. The strategy to increase the portfolio diversity is signified insofar as the largest single investment represents just 5.7 per cent of the net asset value.

Over the six months to 30 June 2016 the portfolio saw an underlying value gain of £0.4 million with good progress being made across a number of companies. The most significant movements in valuations during the period were:

- ACC Aviation £0.5 million
- GTK (Holdco) Limited £0.3 million

These gains were partially offset by companies which saw profits impacted by difficult trading conditions:

- Seven Technologies Holdings Limited down £0.3 million
- Ness (Holdings) Limited down £0.3 million

New and Follow-on Investments

In the six months to June 2016 the Company has made a new investment of £0.9 million into Sipsynergy (via Hosted Network Services Limited), and a follow-on investment of £0.2 million into Immunobiology Limited.

Realisation of Investments

During the six months to 30 June 2016 the Company received £2.4 million from disposals and repayments of loans. This included the full exit from its investment in Callstream Group Limited and the sale or reduction of a number of AIM holdings following a period of strong share price performance.

A detailed analysis of all investments realised in the period to 30 June 2016 can be found in note 6 to this interim report.

INVESTMENT PORTFOLIO

The top ten investments had a combined value of £19.8 million, 55.4 per cent of the total portfolio.

Manufacturing and Industrial Services



Retail and Brands



Software, IT and Telecommunications



Healthcare



Business Services



Name of Company	Date of initial investment	Current cost	Realised proceeds to date	Investment Valuation at 30 June 2016	Valuation plus proceeds to date
		£000	£000	£000	£000



Intelligent Office (via IO Outsourcing Limited)

May 14	1,956	-	3,264	3,264
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Intelligent Office is a leading provider of process outsourcing solutions to UK legal practices, which has won a number of significant new customers since investment. The Managed Services division works within firms' own premises to help them transform and manage key administrative functions and secretarial services.

Alloa - www.intelligentofficeuk.com



ACC Aviation (via Newacc (2014) Limited)

Nov 14	1,379	-	2,274	2,274
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With annual sales of over £50 million, ACC Aviation has built an excellent reputation for providing services to clients across the world in all aspects of aircraft leasing, charter and flight management. A new office was opened this year in Dubai and the airline industry continues to change at a fast pace.

Reigate - www.flyacc.com



Mangar Health Limited

Jan 14	1,640	-	2,273	2,273
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Mangar is a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets. It distributes its products to care providers, local authorities, ambulance services and care homes. Products facilitate extended independence for elderly users.

Powys - www.mangar.co.uk

Name of Company	Date of initial investment	Current cost	Realised proceeds to date	Investment Valuation at 30 June 2016	Valuation plus proceeds to date
		£000	£000	£000	£000



KeTech Enterprises Limited Nov 15 2,000 - 2,000 2,000

KeTech is a specialist manufacturer and distributor to the rail communications, security and defence sectors. It has a diverse range of products including train passenger information systems, driver platform safety systems, airport scanners and chemical detection products for the military.

Nottingham - www.ketech.com



GTK (Holdco) Limited Oct 13 813 337 1,845 2,182

GTK is a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. With a small sourcing team in Taiwan it provides design, procurement and manufacturing services of essential electronic components to sectors such as precision instrumentation, security and contract equipment manufacturing.

Basingstoke - www.gtk.co.uk



DisplayPlan Holdings Limited Jan 12 70 820 1,830 2,650

DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. Strong profits have been achieved since investment with an emphasis on use of technology and continuing to broaden its customer base.

Baldock - www.displayplan.com

Name of Company	Date of initial investment	Current cost	Realised proceeds to date	Investment Valuation at 30 June 2016	Valuation plus proceeds to date
		£000	£000	£000	£000



Gill Marine Holdings Limited

Sep 13 1,870 - 1,717 1,717

Gill Marine is a manufacturer of technical sailing equipment and clothing. Exports account for over 70 per cent of turnover. The strategy is to develop the brand further and increase its share in existing and new markets, including direct to the customer through its relaunched website.

Nottingham - www.gillmarine.com



Springboard Research Holdings Limited

Oct 14 1,646 - 1,646 1,646

Springboard Research is a leading provider of retail performance monitoring: providing footfall, dwell time and conversion rates, sales analysis and driven insights. It is the official provider of footfall data and benchmarks to the British Retail Consortium. A continually shifting retail environment means that retailers and landlords are seeking new ways of improving their competitive advantage.

Milton Keynes - www.spring-board.info



Business Collaborator Limited

Nov 14 1,340 - 1,501 1,501

Business Collaborator is an established provider of collaboration software hosted on the cloud to the construction sector and a leader in the nascent Building Information Modelling ("BIM") software market. Sales growth is driven by the products ability to deliver cost savings to its customer base of construction firms and asset owners, supported by government regulations.

Reading - www.groupbc.com

Investment Portfolio (continued)

Name of Company	Date of initial investment	Current cost £000	Realised proceeds to date £000	Investment Valuation at 30 June 2016 £000	Valuation plus proceeds to date £000
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Immunobiology Limited

Jun 03

2,382

-

1,486

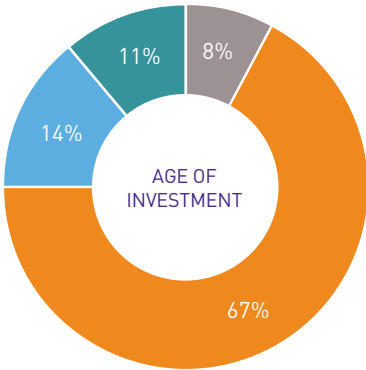
1,486

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia. It has recently concluded a phase 1 human trial for its pneumonia vaccine, which produced positive safety and efficacy data.

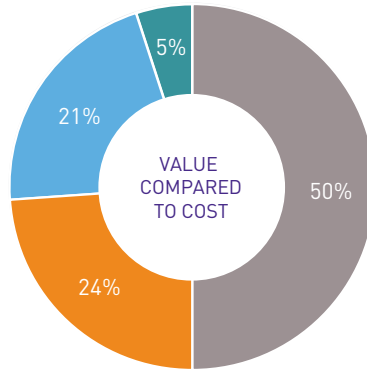
Cambridge – www.immbio.com

Name of Company		Date of initial investment	Current cost	Realised proceeds to date	Investment Valuation at 30 June 2016	Valuation plus proceeds to date
			£000	£000	£000	£000
Top Ten Investments			15,096	1,157	19,836	20,993
Remaining Unquoted Portfolio						
Manufacturing	Leengate Holdings Limited	Dec 13	934	-	1,372	1,372
Manufacturing	Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	Oct 14	1,100	100	1,078	1,178
Manufacturing	The Heritage Window Company Holdco Limited	Sep 14	1,468	-	954	954
Software	Sipsynergy (via Hosted Network Services Limited)	Jun 16	900	-	900	900
Software	Seven Technologies Holdings Limited	Apr 12	1,238	762	899	1,661
Software	Intamac Systems Limited	Jun 14	828	-	828	828
Business Services	Macro Art Holdings Limited	Jun 14	679	160	809	969
Manufacturing	Wakefield Acoustics (via Malvar Engineering Limited)	Dec 14	730	31	750	781
Retail	Harvey Jones Holdings Limited	May 07	442	751	617	1,368
Software	PowerOasis Limited	Nov 11	594	-	594	594
Retail/Manufacturing	Bagel Nash Group Limited	Jul 11	629	200	539	739
Retail	Ness (Holdings) Limited	Mar 15	1,031	-	516	516
Software	Selima Holding Company Ltd	Mar 12	300	-	509	509
Other investments	£0.5 million and below		3,493	349	3,760	4,109
Total unquoted investments			29,462	3,510	33,961	37,471
Quoted Portfolio						
Manufacturing	Gooch & Housego plc	Jan 15	397	-	510	510
Other investments	£0.5 million and below		1,124	881	1,321	2,202
Total quoted investments			1,521	881	1,831	2,712
Total Portfolio			30,983	4,391	35,792	40,183
Full disposals to date			18,810	25,613	-	25,613
Total investment portfolio			49,793	30,004	35,792	65,796

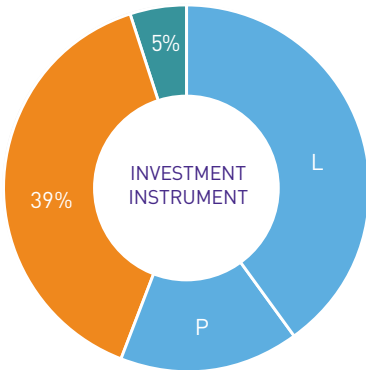
OUR PORTFOLIO AT A GLANCE



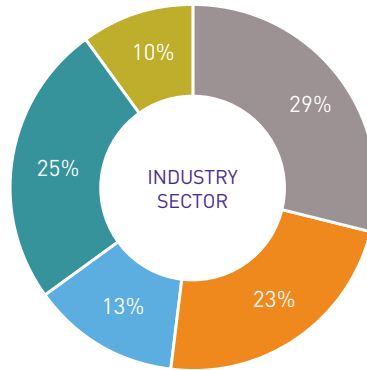
- Less than 1 year
- Between 1 & 3 years
- Between 3 & 5 years
- Greater than 5 years



- Value above cost
- At cost
- Value below cost
- Quoted Companies - portfolio above cost



- Loan
 - Preference Shares
 - Ordinary Shares
 - Quoted
- } 56%



- Business Services
- Manufacturing and Industrial
- Healthcare
- Software, IT and Telecommunications
- Retail and Brands

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.7, the Board confirms that the principal risks and uncertainties facing the Company have not materially changed from those identified in the Annual Report and Accounts for the year ended 31 December 2015. The Board acknowledges that there is regulatory risk and continues to manage the Company's affairs in such a manner as to comply with section 274 Income Tax Act 2007.

In summary, the principal risks are:

- Loss of approval as a Venture Capital Trust;
- Economic;
- Investment and strategic;
- Regulatory;
- Reputational;
- Operational;
- Financial; and
- Market/liquidity.

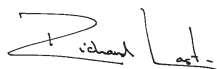
Full details of the principal risks can be found in the financial statements for the year ended 31 December 2015 on pages 30 and 31, a copy of which is available at www.bscfunds.com.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors of British Smaller Companies VCT2 plc confirm that, to the best of their knowledge, the condensed set of financial statements in this interim report have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU, and give a fair view of the assets, liabilities, financial position and profit and loss of British Smaller Companies VCT2 plc, and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The directors of British Smaller Companies VCT2 plc are listed in note 9 of these interim financial statements.

By order of the Board



Richard Last
Chairman

11 August 2016

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2016

	Notes	Unaudited 6 months ended 30 June 2016			Unaudited 6 months ended 30 June 2015		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on investments held at fair value		-	262	262	-	1,709	1,709
Gain (loss) on disposal of investments		-	186	186	-	(53)	(53)
Income	2	1,083	-	1,083	965	-	965
Total income		1,083	448	1,531	965	1,656	2,621
Administrative expenses:							
Investment Adviser's fee		(136)	(412)	(548)	(98)	(295)	(393)
Other expenses		(225)	-	(225)	(222)	-	(222)
		(361)	(412)	(773)	(320)	(295)	(615)
Profit before taxation		722	36	758	645	1,361	2,006
Taxation	3	(75)	75	-	(76)	76	-
Profit for the period		647	111	758	569	1,437	2,006
Total comprehensive income for the period		647	111	758	569	1,437	2,006
Basic and diluted earnings per ordinary share	5	0.70p	0.12p	0.82p	0.72p	1.81p	2.53p

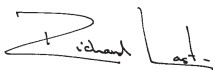
The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2014 published by the Association of Investment Companies.

UNAUDITED BALANCE SHEET

as at 30 June 2016

	Notes	Unaudited 30 June 2016 £000	Unaudited 30 June 2015 £000	Audited 31 December 2015 £000
Assets				
Financial assets at fair value through profit or loss	6	35,792	33,202	36,652
Trade and other receivables		687	572	678
		36,479	33,774	37,330
Current assets				
Trade and other receivables		757	467	368
Cash on fixed term deposit		3,016	6,000	1,992
Cash and cash equivalents		16,990	14,078	15,444
		20,763	20,545	17,804
Liabilities				
Current liabilities				
Trade and other payables		(188)	(179)	(284)
Net current assets		20,575	20,366	17,520
Net assets		57,054	54,140	54,850
Shareholders' equity				
Share capital		9,584	8,881	8,939
Share premium account		16,598	13,079	13,337
Capital redemption reserve		88	88	88
Other reserve		2	2	2
Merger reserve		5,525	5,525	5,525
Capital reserve		18,997	22,324	20,781
Investment holding gains and losses		4,839	3,340	5,127
Revenue reserve		1,421	901	1,051
Total shareholders' equity		57,054	54,140	54,850
Net asset value per ordinary share	7	61.0p	62.5p	62.9p

Signed on behalf of the Board



Richard Last

Chairman
11 August 2016

UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016

	Share capital	Share premium account	Other reserves*	Merger reserve	Capital reserve	Investment holding gains and losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2014	6,447	342	90	5,525	24,822	1,507	600	39,333
<i>Revenue profit before taxation</i>	-	-	-	-	-	-	645	645
<i>Capital expenses</i>	-	-	-	-	(295)	-	-	(295)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	1,709	-	1,709
<i>Realisation of investments</i>	-	-	-	-	(53)	-	-	(53)
<i>Taxation</i>	-	-	-	-	76	-	(76)	-
Total comprehensive (expense) income for the period	-	-	-	-	(272)	1,709	569	2,006
<i>Issue of ordinary share capital</i>	2,366	13,056	-	-	-	-	-	15,422
<i>Issue of shares - DRIS</i>	68	329	-	-	-	-	-	397
<i>Issue costs of ordinary shares</i>	-	(648)	-	-	(94)	-	-	(742)
<i>Purchase of own shares</i>	-	-	-	-	(123)	-	-	(123)
<i>Dividends</i>	-	-	-	-	(1,885)	-	(268)	(2,153)
Total transactions with owners	2,434	12,737	-	-	(2,102)	-	(268)	12,801
Realisation of prior year investment holding losses	-	-	-	-	(124)	124	-	-
At 30 June 2015	8,881	13,079	90	5,525	22,324	3,340	901	54,140
<i>Revenue profit before taxation</i>	-	-	-	-	-	-	640	640
<i>Capital expenses</i>	-	-	-	-	(406)	-	-	(406)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	1,607	-	1,607
<i>Realisation of investments</i>	-	-	-	-	285	-	-	285
<i>Taxation</i>	-	-	-	-	76	-	(76)	-
Total comprehensive (expense) income for the period	-	-	-	-	(45)	1,607	564	2,126
<i>Issue of shares - DRIS</i>	58	277	-	-	-	-	-	335
<i>Issue costs of ordinary shares</i>	-	(19)	-	-	2	-	-	(17)
<i>Dividends</i>	-	-	-	-	(1,320)	-	(414)	(1,734)
Total transactions with owners	58	258	-	-	(1,318)	-	(414)	(1,416)
Realisation of prior year investment holding losses	-	-	-	-	(180)	180	-	-
At 31 December 2015	8,939	13,337	90	5,525	20,781	5,127	1,051	54,850

Unaudited Statement of Changes in Equity (continued)

for the six months ended 30 June 2016

	Share capital	Share premium account	Other reserves*	Merger reserve	Capital reserve	Investment holding gains and losses £000	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2015	8,939	13,337	90	5,525	20,781	5,127	1,051	54,850
<i>Revenue profit before taxation</i>	-	-	-	-	-	-	722	722
<i>Capital expenses</i>	-	-	-	-	(412)	-	-	(412)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	262	-	262
<i>Realisation of investments</i>	-	-	-	-	186	-	-	186
<i>Taxation</i>	-	-	-	-	75	-	(75)	-
Total comprehensive (expense) income for the period	-	-	-	-	(151)	262	647	758
<i>Issue of ordinary share capital</i>	568	3,030	-	-	-	-	-	3,598
<i>Issue of shares - DRIS</i>	77	366	-	-	-	-	-	443
<i>Issue costs of ordinary shares</i>	-	(135)	-	-	-	-	-	(135)
<i>Purchase of own shares</i>	-	-	-	-	(138)	-	-	(138)
<i>Dividends</i>	-	-	-	-	(2,045)	-	(277)	(2,322)
Total transactions with owners	645	3,261	-	-	(2,183)	-	(277)	1,446
Realisation of prior year investment holding gains	-	-	-	-	550	(550)	-	-
At 30 June 2016	9,584	16,598	90	5,525	18,997	4,839	1,421	57,054

*Other reserves include the capital redemption reserve and the other reserve

Unaudited Statement of Changes in Equity (continued)
for the six months ended 30 June 2016

Reserves available for distribution

Under the Companies Act 2006 the capital reserve and the revenue reserve are distributable reserves. The table below shows amounts that are available for distribution.

	Capital reserve £000	Revenue reserve £000	Total £000
Distributable reserves on page 17	18,997	1,421	20,418
<i>Less : Interest and dividends not yet distributable</i>	-	(828)	(828)
<i>: Deferred proceeds</i>	(105)	-	(105)
<i>: Cancelled share premium not yet distributable</i>	(1,343)	-	(1,343)
Reserves available for distribution**	17,549	593	18,142

** The revenue reserve of £593,000 is only distributable once these interim financial statements are filed at Companies House.

The capital reserve (£18,997,000) and the revenue reserve (£1,421,000) are both distributable reserves. These reserves total £20,418,000, representing a decrease of £1,414,000 in the period since 31 December 2015. The directors also take into account the level of investment holding gains (losses) reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £20,418,000 shown above, £828,000 relates to interest and dividends receivable from 2018 onwards, £105,000 of deferred proceeds receivable in 2016, and £1,343,000 of share premium which becomes distributable from 1 January 2018.

On filing these interim financial statements at Companies House, the reserves available for distribution will be £18,142,000.

UNAUDITED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2016

	Unaudited 6 months ended 30 June 2016 €000	Unaudited 6 months ended 30 June 2015 €000	Audited year ended 31 December 2015 €000
Profit before taxation	758	2,006	4,132
(Decrease) increase in trade and other payables	(96)	(26)	24
Increase in trade and other receivables	(122)	(116)	(345)
(Gains) / losses on disposal of investments	(186)	53	(232)
Profit on investments held at fair value	(262)	(1,709)	(3,316)
Capitalised interest and dividends	(20)	(1)	(116)
Net cash inflow from operating activities	72	207	147
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	(1,050)	(4,161)	(7,239)
Proceeds from sale of financial assets at fair value through profit or loss	2,099	582	2,458
Deferred consideration	2	14	13
Cash placed on fixed term deposit	(1,024)	(6,000)	(1,992)
Net cash inflow (outflow) from investing activities	27	(9,565)	(6,760)
Cash flows from financing activities			
Issue of ordinary shares	3,598	15,126	15,422
Costs of ordinary share issues	(135)	(446)	(733)
Purchase of own shares	(138)	(123)	(123)
Dividends paid	(2,321)	(2,151)	(3,874)
Shares issued under DRIS	443	397	732
Net cash inflow from financing activities	1,447	12,803	11,424
Net increase in cash and cash equivalents	1,546	3,445	4,811
Cash and cash equivalents at the beginning of the period	15,444	10,633	10,633
Cash and cash equivalents at the end of the period	16,990	14,078	15,444

EXPLANATORY NOTES TO THE UNAUDITED CONDENSED 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 9, 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 have been prepared in accordance with IAS 34 'Interim financial reporting' and the Disclosure and Transparency Rules of the Financial Conduct 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 2015 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2015. 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 2015.

The financial statements for the year ended 31 December 2015 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 November 2014 ("SORP") is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

Standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include amendments to IFRS 9, 10 and 15, and amendments to IAS 27 and 28. A full assessment of the impact of the new accounting standards and amendments applicable to the Company has not been carried out, but is not expected to be material to the financial statements.

The financial statements are presented in sterling and all values are rounded to the nearest thousand (£000), except where stated.

Going Concern: The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations as they fall due for a period of at least twelve months from the date these half year statements were approved. As at 30 June 2016 the Company held cash balances and fixed term deposits with a combined value of £20,006,000. Cash flow projections show the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of share buy-backs and the dividend policy. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing these half year statements.

2 Income

	Unaudited 6 months ended 30 June 2016 £000	Unaudited 6 months ended 30 June 2015 £000
Income from investments		
- Dividends from unquoted companies	340	240
- Dividends from AIM quoted companies	7	24
	347	264
- Interest on loans to unquoted companies	640	627
Income from investments held at fair value through profit or loss	987	891
Interest on bank deposits	96	74
	1,083	965

3 Taxation

	Unaudited 6 months ended 30 June 2016			Unaudited 6 months ended 30 June 2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	722	36	758	645	1,361	2,006
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2015: 20%)	144	7	151	129	272	401
Effect of:						
UK dividends received	(69)	-	(69)	(53)	-	(53)
Non-taxable profits on investments	-	(90)	(90)	-	(331)	(331)
Excess expenses	-	8	8	-	(17)	(17)
Tax charge (credit)	75	(75)	-	76	(76)	-

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

Deferred tax assets in respect of losses have not been recognised as the directors 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.

Explanatory Notes to the Unaudited Condensed Financial Statements (continued)

4 Dividends

Amounts recognised as distributions to equity holders in the period:

	Unaudited 6 months ended 30 June 2016			Unaudited 6 months ended 30 June 2015			Audited Year ended 31 December 2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2015 of 2.5p (2014 year end 2.5p) per ordinary share	277	2,045	2,322	268	1,885	2,153	268	1,885	2,153
Interim dividend for the year ended 31 December 2015 of 2.0p per ordinary share	-	-	-	-	-	-	414	1,320	1,734
	277	2,045	2,322	268	1,885	2,153	682	3,205	3,887
Unclaimed dividends			(1)			(2)			(13)
Dividends paid in the Statement of Cash Flows			2,321			2,151			3,874

An interim dividend of 2.0 pence per ordinary share, amounting to approximately £1.87 million 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 per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to equity shareholders of £758,000 (30 June 2015: £2,006,000) and 92,656,544 (30 June 2015: 79,407,872) ordinary shares being the weighted average number of ordinary shares in issue during the period.

The basic and diluted revenue earnings per ordinary share is based on the revenue profit attributable to equity shareholders of £647,000 (30 June 2015: £569,000) and 92,656,544 (30 June 2015: 79,407,872) ordinary shares being the weighted average number of ordinary shares in issue during the period.

The basic and diluted capital earnings per ordinary share is based on the capital profit attributable to equity shareholders of £111,000 (30 June 2015: £1,437,000) and 92,656,544 (30 June 2015: 79,407,872) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 763,247 new ordinary shares in respect of its dividend re-investment scheme and 5,683,709 ordinary shares of 10 pence each under the Offer for Subscription launched on 8 December 2015, raising gross proceeds of £3.6 million.

The Company has repurchased 239,530 of its own shares in the period and these shares are held in the capital reserve. The total of 2,367,533 treasury shares has been excluded in calculating the weighted average number of ordinary shares during the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Investment Advisor Agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 30 June 2016, 31 December 2015 or 30 June 2015.

6 Financial Assets at Fair Value through Profit or Loss

IFRS 13, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level within the following fair value measurement hierarchy:

- **Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1 and comprise AIM quoted investments or government securities and other fixed income securities classified as held at fair value through profit or loss.
- **Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Company held no such instruments in the current or prior year.
- **Level 3:** the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it was included at the beginning of each accounting period. There have been no transfers between these classifications in the period (2015: none). The change in fair value for the current and previous year is recognised through profit or loss.

All items held at fair value through profit or loss were designated as such upon initial recognition.

Valuation of Investments

Initial Measurement: Financial assets are initially measured at fair value. The best estimate of the initial fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

6 Financial Assets at Fair Value through Profit or Loss (continued)

Subsequent Measurement: The International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") identify six of the most widely used valuation methodologies for unquoted investments. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market based data in order to derive a fair value.

Full details of the methods used by the Company were set out on pages 55 and 56 of the financial statements for the year ended 31 December 2015, a copy of which can be found at www.bscfunds.com. Where investments are in quoted stocks, fair value is set at the market price. The primary methods used for valuing non-quoted investments, and the key assumptions relating to them are:

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.

Movements in investments at fair value through profit or loss during the six months to 30 June 2016 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments £000	Level 1 Quoted Equity Investments £000	Total Investments £000
Opening cost	29,332	2,223	31,555
Opening investment holding gain	4,636	461	5,097
Opening fair value at 1 January 2016	33,968	2,684	36,652
Additions at cost	1,050	-	1,050
Capitalised interest and dividends	20	-	20
Disposal proceeds	(1,363)	(992)	(2,355)
Net profit on disposal *	72	91	163
Change in fair value	214	48	262
Closing fair value at 30 June 2016	33,961	1,831	35,792
Closing cost	29,462	1,521	30,983
Closing investment holding gain **	4,499	310	4,809
Closing fair value at 30 June 2016	33,961	1,831	35,792

- * The net profit on disposal in the table above is £163,000 whereas that shown in the Statement of Comprehensive Income is £186,000. The difference comprises the gain of £23,000 arising on deferred proceeds in respect of assets which have been disposed and are not included within the investment portfolio at the period end.
- ** Following the merger between the Company and British Smaller Technology Companies VCT plc, a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of investments acquired. The relevant amount per investment is released at the point of disposal to the capital reserve. At 30 June 2016, a total of £30,000 was held on investments yet to be realised in the investment holding gains and losses reserve.

Level 3 valuations include assumptions based on non-observable data, such as discounts applied either to reflect changes in fair value of financial assets held at the price of recent investment, or to adjust earnings multiples.

IFRS13 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to fair value measurement. Each unquoted portfolio company has been reviewed and both downside and upside alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternative the value of the unquoted investments would be £2,840,000 (8.4 per cent) lower. Using the upside alternative the value would be increased by £2,907,000 (8.6 per cent).

Of the Company's equity investments 95 per cent are in unquoted companies held at fair value (31 December 2015: 93 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® PE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's shareholders and the total profit by £1,531,000 (2.7 per cent of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's shareholders and the total profit by £1,443,000 (2.5 per cent of net assets).

Of the Company's equity investments, 5 per cent are quoted on AIM (31 December 2015: 7 per cent). A five per cent increase in stock prices as at 30 June 2016 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £92,000 (31 December 2015: £134,000). 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 period by an equal amount.

There have been no individual reductions in fair value during the period that exceeded five per cent of the total assets of the Company (31 December 2015: none).

Explanatory Notes to the Unaudited Condensed Financial Statements (continued)

6 Financial Assets at Fair Value through Profit or Loss (continued)

The following disposals and loan repayments took place during the period (all companies are unquoted unless otherwise stated).

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2016	Gain (loss) over opening carrying value	Profit (loss) on original cost
	£000	£000	£000	£000	£000
Loan repayments					
Bagel Nash Group Limited	27	27	27	-	-
Cambrian Park & Leisure Homes Limited	33	33	33	-	-
Harvey Jones Holdings Limited	469	469	469	-	-
Macro Art Holdings Limited	52	52	52	-	-
Wakefield Acoustics	31	31	31	-	-
	612	612	612	-	-
Equity disposals					
AB Dynamics plc*	503	130	416	87	373
Brady plc*	320	498	314	6	(178)
Callstream Group Limited	742	329	679	63	413
Ellfin Home Care Limited	1	-	-	1	1
Gamma Communications plc*	169	73	171	(2)	96
Silistix Limited	6	-	-	6	6
	1,741	1,030	1,580	161	711
Total proceeds from disposals	2,353	1,642	2,192	161	711
<i>Deferred consideration</i>					
Primal Pictures Limited	2	-	-	2	2
Deferred consideration received	2	-	-	2	2
Revaluation of deferred consideration					
Callstream Group Limited	11	-	-	11	11
Sirigen Group Limited	12	-	-	12	12
Total proceeds	2,378	1,642	2,192	186	736

* Designates AIM quoted investments

The total proceeds in the table above is £2,378,000, whereas that shown in the Statement of Cash Flows is £2,099,000. The difference comprises deferred consideration and cash received after 30 June 2016.

7 Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted net asset value per ordinary share is calculated on attributable assets of £57,054,000 (30 June 2015 and 31 December 2015: £54,140,000 and £54,850,000 respectively) and 93,470,001 (30 June 2015 and 31 December 2015: 86,681,566 and 87,262,575 respectively) ordinary shares in issue at 30 June 2016.

The 2,367,533 (30 June 2015 and 31 December 2015: 2,128,003) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 June 2016. 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.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Investment Advisor Agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 30 June 2016, 31 December 2015 or 30 June 2015.

8 Total Return

Total return per share is calculated on cumulative dividends paid of 50.5 pence per ordinary share (30 June 2015: 46.0 pence per ordinary share and 31 December 2015: 48.0 pence per ordinary share) plus the net asset value as calculated in note 7.

9 Directors

The directors of the Company are: Richard Last, Robert Martin Pettigrew, and Peter Charles Waller.

10 Other Information

Copies of the interim report can be obtained from the Company's registered office: 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS or from www.bscfunds.com.

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Peter Charles Waller

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