British Smaller Companies VCT2 plc

Unaudited Interim Results and Interim Management Report

For the nine months ended 30 September 2018

British Smaller Companies VCT2 plc (the "Company") today announces its unaudited interim results for the nine months to 30 September 2018.

HIGHLIGHTS

- Increase in total return of 2.3 pence per ordinary share to 116.6 pence per ordinary share at 30 September 2018 (114.3 pence per ordinary share at 31 December 2017).
- Increase in net asset value ("NAV") to 61.1 pence per ordinary share prior to the payment of the total dividends of 3.0 pence per ordinary share in the period. The NAV at 30 September 2018 is 58.1 pence per ordinary share.
- Total dividends for the period ended 30 September 2018 amounted to 3.0 pence per ordinary share which equates to 5.1 per cent of the opening December 2017 NAV per share.
- Total cumulative dividends paid since inception of 58.5 pence per ordinary share.
- The Company invested £5.5 million into four new and two follow-on investments during the period.
- The Company will shortly launch an offer, with British Smaller Companies VCT plc, (together "the Companies"), to raise up to £30 million in aggregate, with an additional £5 million over-allotment facility, by way of a new joint prospectus offer of new ordinary shares for subscription in the 2018/19 tax year ("the Offer"). The Offer will be open to those shareholders on the register of one or both of the Companies on 22 October 2018 until 4 January 2019, and unless the Offer has been fully subscribed by that date the Offer will then be available to new Investors.

CHAIRMAN'S STATEMENT

Your Company, British Smaller Companies VCT2 plc, will shortly announce a joint offer for subscription with British Smaller Companies VCT plc to raise in aggregate £30 million with an additional £5 million over-allotment facility. Your Company has taken the additional step of publishing interim financial statements for the nine-month period to 30 September 2018, as the Board believes that it is appropriate for the Company's shareholders to have the most up to date financial information available when considering this investment opportunity.

Total Return for the nine months ended 30 September 2018 was 2.3 pence per ordinary share, which was 3.9 per cent of the net asset value at 31 December 2017 and your Company's portfolio generated a return of 2.4 pence per ordinary share, which was 6.5 per cent of its opening value.

New Investment

So far this year your Company has completed new and follow-on investments totalling £5.5 million comprising four new investments and two follow-on investments. These were:

In March 2018 £1.0 million was invested into **Ncam Technologies Limited**. Ncam develops award-winning augmented reality technology which is utilised globally by broadcast, film and episodic broadcast TV productions. The funds will be used to support the development of new products, invest in the team, and help the business extend its reach into new territories, especially the US, where a new office opening is planned for 2018.

Also in March 2018 your Company invested £2.0 million into **Eikon Holdco Limited**, a cutting edge, end-to-end, digital post-production service provider for the film and broadcast industry based in London. Clients include Paramount Pictures, Twentieth Century Fox, Sony Pictures Entertainment, Warner Bros, Universal Pictures, CBS and Netflix. Eikon will use the investment to build a new state of the art studio in Los Angeles as well as continuing to invest in the development of technology to enhance the service delivery to customers.

In April 2018 your Company made a new investment of £0.9 million into **Hutchinson Networks Limited**, a leading provider of multi-vendor IT and network solutions to clients globally. Hutchinson will utilise the money to fund additional marketing and operational resources to accelerate international growth in a growing market.

During May 2018 £1.2 million was invested into **Arcus Global Limited**, a provider of cloud-based software solutions to local and national public-sector organisations. The funding will support the continued growth of the business; building resource in technology development, sales and customer services. Together, this will enable Arcus to further expand its range of software solutions to help the public sector to increase its use of digital technologies and transform services.

Follow-on investments were made into existing portfolio companies, including an additional investment of £0.4 million into **Matillion Limited** which was part of a large secondary funding round supported by two US investors.

Investments made since the changes to the VCT rules in November 2015 now comprise £12.6 million (28 per cent) of the value of the unquoted portfolio as at 30 September 2018, with £32.4 million (72 per cent) of investments made prior to the rule changes.

Financial Results and Dividends

The movement in **Total Return** is set out in the table below:

Total Return	Pence per ordinary share	
Total Return at 1 January 2018		114.3
Net underlying increase in portfolio	2.4	
Issue/buy-back of shares	(0.1)	
Increase in Total Return*		2.3
Total Return at 30 September 2018		**116.6**

* Total Return movement represents an increase of 3.9 per cent (annualised 5.2 per cent) over the opening net asset value of 58.8 pence per ordinary share.

The portfolio produced a value gain of £2.6 million, representing a 6.5 per cent increase over the opening value and equivalent to an increase in value for shareholders of 2.4 pence per ordinary share.

Due to the repayment of loans and the different financing structures of new investments there has been a significant change in the nature of the income we receive from our investments. Newer investments now include lower levels of debt and higher levels of preference shares, consequently a growing proportion of income now derives from preference dividends. In addition the new investments, which are earlier stage and growth-focussed, invariably re-invest their profits to fund growth therefore the payment of dividends and interest is often deferred and paid at exit.

Whilst income in the period was 14 per cent higher than the same period last year, this derived principally from preference dividends as referred to above, the receipt of which is anticipated to be less predictable than the interest income from more mature investments. In general, the more recent additions to the portfolio are re-investing their profits for growth, which means that the investments comprise mainly equity instruments.

As part of your Board's commitment to maintaining a sustainable level of dividends a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2017 and an interim dividend of 1.5 pence per ordinary share in respect of the year ending 31 December 2018 were paid in the period, bringing the cumulative dividends paid to date to 58.5 pence per ordinary share.

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

Net Asset Value "NAV"	£000		Pence per ordinary share	
NAV at 1 January 2018		59,056		58.8
Net underlying increase in portfolio	2,639		2.4	
Net loss after expenses	(6)		-	
Issue/buy-back of shares	4,031		(0.1)	
		6,664		2.3
NAV before the payment of dividends		65,720		61.1
Dividends paid		(3,219)		(3.0)
NAV at 30 September 2018		**62,501**		**58.1**

Shareholder Relations

As part of the Board's continuing dialogue with shareholders, the 23rd shareholder workshop was held in conjunction with British Smaller Companies VCT plc at the Honourable Artillery Company on 16 May 2018. There was a presentation from the CEO of one of our newest investments, Ncam Technologies Limited, alongside short videos about our other new portfolio companies. The Company's performance, investment portfolio and outlook were discussed in presentations given by the Investment Adviser, followed by a question and answer session.

As shareholders may be aware the General Data Protection Regulations ("GDPR") came into force on 25 May 2018. GDPR provides a greater level of protection over personal information and the Company and the Investment Adviser have taken all necessary steps to comply with its requirements. A revised Privacy Notice has been published and this can be found on your Company's website at www.bscfunds.com.

The Company would encourage investors who receive dividends to do so by way of BACS transfer, instead of cheques, as this provides certainty of cleared funds and removes the need to make a branch deposit. If you wish to change to BACS payment this can be done via www.signalshares.com.

A large number of shareholders (83 per cent) now receive documents such as the annual report via the website, www.bscfunds.com, rather than by post. This saves on printing costs, as well as being more environmentally friendly, and your Board would encourage all shareholders to do this.

Your Company's website www.bscfunds.com, provides a comprehensive level of information in what I hope is a user-friendly format and is refreshed on a regular basis.

Regulatory Developments

It is pleasing that the European Commission has confirmed its decision to approve the recent amendments to the VCT rules. This includes an increase in the annual investment limit for Knowledge Intensive Companies to £10 million and your Company intends to take advantage of this change at the earliest opportunity.

HMRC launched a consultation on proposed changes which would allow your Company to make investments without obtaining advance assurance. Such an approach would mean relying on the Company's advisers so, until there is greater clarification on how this would work in practice, the Company will continue to seek advance assurance on all investments.

Board Composition

As previously announced, after seventeen years' service I have decided to stand down as Chairman and director of your Company at the 2019 Annual General Meeting. Having considered the level of experience and expertise that will be needed in the future the Board has decided that it would be in shareholders' best interests for Peter Waller, currently a non-executive director, to take on the role of Chairman and to recruit a new non-executive director.

Fundraising

As noted above the Board will shortly announce a joint offer for subscription with British Smaller Companies VCT plc, to raise in aggregate £30 million with a £5 million over-allotment facility, which is considered appropriate given your Company's expected cash requirements. There will be a short period of around four weeks during which existing shareholders of both companies will, on a first-come, first-served basis, have the opportunity to apply for new shares in both companies, after which the offers will be open to new investors. The intention is to have a single allotment, between 1- 5 April 2019.

Outlook

The Company's investments continue to perform well and those made since the rule changes in November 2015 now make up 28 per cent of the portfolio. The recent level of investment by the Company and the need to provide follow-on funding into the earlier stage growth investments in the portfolio, support the need for raising further funds through the proposed joint offer for subscription with British Smaller Companies VCT plc. The revised VCT rules that were approved by the European Commission in July this year will, inter alia, allow investments of up to £10 million in any one year into Knowledge Intensive Companies and this change will benefit your Company's ability to invest in UK smaller businesses.

Although there remains a great deal of uncertainty around the UK's future trading relationship with the EU, and portfolio companies continue to prepare for all potential outcomes, the Board believes that there will be limited negative impact across the portfolio.

The Board hopes that shareholders will take the opportunity to add to their investment in the Company in the proposed fundraising.

OBJECTIVES AND KEY POLICIES

The Company's objective is to grow Total Return over the medium to long-term whilst maintaining the Company's status as a venture capital trust.

INVESTMENT POLICY

The Company's investment policy is to create a portfolio that blends a mix of businesses operating in established industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the VCT legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on earlier stage growth businesses focussing on the application and development of innovation.

To this end, the Company will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain the Company's Venture Capital Trust status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments. In order to limit the risk to the portfolio that is derived from any particular investment, at the point of investment no more than 15 per cent of the Company by value will be in any one investment.

Borrowing

The Company funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.

Co-investment

British Smaller Companies VCT2 plc and British Smaller Companies VCT plc ("the VCTs") have in aggregate first choice of all investment opportunities meeting the VCT qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other the basis for allocation is 40 per cent to the Company and 60 per cent to British Smaller Companies VCT plc. The Board of the Company has discretion as to whether or not to take up or, where British Smaller Companies VCT plc does not take its allocation, increase its allocation in such co-investment opportunities.

Asset Mix

Pending investment in VCT-qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes AIM investments in this category.

INVESTMENT REVIEW

The Company's portfolio at 30 September 2018 had a value of £47.41 million consisting of £44.95 million (95 per cent) in unquoted investments and £2.46 million (5 per cent) in quoted investments. The largest single investment represents 7.6 per cent of the net asset value.

Over the nine months to 30 September 2018 the portfolio saw an underlying value gain of £2.80 million from the ongoing portfolio comprising £2.34 million from the unquoted portfolio and £0.46 million from the quoted portfolio.

The most significant upward movements in the period were:

• ACC Aviation	£2.27 million
• Matillion Limited	£1.44 million
• Deep-Secure Ltd	£0.66 million
• Gill Marine Holdings Limited	£0.52 million

The increase in ACC's valuation during the period has resulted from a very strong underlying trading performance and a recent increase in your Company's equity ownership following a reorganisation.

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

• DisplayPlan Holdings Limited	down £0.51 million
• Seven Technologies Holdings Limited	down £0.51 million
• e2E Engineering Limited	down £0.45 million
• Intelligent Office UK	down £0.35 million

New and Follow-on Investments

In the nine months to September 2018 the level of new investment has increased and there has been some improvement in HMRC's advance assurance process, although our experience hasn't yet seen clearances within 15 working days. HMRC is though encouraging advisers to only seek advance assurance where they have a question over whether or not the investment meets the qualifying criteria. So far this year your Company has completed four new investments and two follow-on investments, totalling £5.53 million.

The new investments comprise:

- £2.00 million into Eikon Holdco Limited (10.6 weeks for advance assurance)
- £1.20 million into Arcus Global Limited (15.6 weeks for advance assurance)
- £0.98 million into Ncam Technologies Limited (7.4 weeks for advance assurance) and
- £0.88 million into Hutchinson Networks Limited (10.4 weeks for advance assurance).

The largest follow-on investment was £0.38 million into Matillion Limited as part of an £18 million series B fundraising that was supported by two well-known US investors, Sapphire Ventures and Scale Venture Partners.

Realisation of Investments

During the nine months to 30 September 2018 the Company generated £1.25 million from disposals and repayments of loans. This included the full exit from its AIM investment in Allergy Therapeutics plc.

A detailed analysis of all investments realised in the period to 30 September 2018 can be found in note 6.

INVESTMENT PORTFOLIO

The top 10 investments had a combined value of £27.8 million, 58.6 per cent of the total portfolio.

Name of Company	Sector	Date of initial investment	Current cost	Investment valuation at 30 September 2018	Proceeds to date	Realised and unrealised value to date
			£000	£000	£000	£000
ACC Aviation (via Newacc (2014) Limited)	Business Services	Nov 14	145	4,773	1,233	6,006
Matillion Limited	Software	Nov 16	1,778	4,042	-	4,042
Mangar Health Limited	Healthcare	Jan 14	1,640	2,964	-	2,964
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent office)	Business Services	May 14	1,956	2,959	-	2,959
KeTech Enterprisess Limited	Software	Nov 15	2,000	2,669	-	2,669
Gill Marine Holdings Limited	Retail	Sep 13	1,870	2,439	-	2,439
Business Collaborator Limited	Software	Nov 14	1,340	2,087	-	2,087
Eikon Holdco Limited	Software	Mar 18	2,000	2,000	-	2,000
Deep-Secure Limited	Software	Dec 09	500	1,939	-	1,939
GTK (Holdco) Limited	Manufacturing	Oct 13	146	1,897	1,204	3,101
Total top 10 investments			**13,375**	**27,769**	**2,437**	**30,206**
Remaining unquoted portfolio						
Springboard Research Holdings Limited	Business Services	Oct 14	1,765	1,799	-	1,799
Leengate Holdings Limited	Manufacturing	Dec 13	934	1,610	-	1,610
Friska Limited	Retail	Jul 17	1,200	1,202	-	1,202
Arcus Global Limited	Software	May 18	1,200	1,200	-	1,200
Sipsynergy (via Hosted Network Services Limited)	Software	Jun 16	1,309	1,004	-	1,004
Immunobiology Limited	Healthcare	Jun 03	2,582	920	-	920
Hutchinson Networks Limited	Software	Apr 18	880	880	-	880
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing	Dec 14	720	867	41	908
Ncam Technologies Limited	Software	Mar 18	977	733	-	733
Traveltek Group Holdings Limited	Software	Oct 16	980	726	-	726
Macro Art Holdings Limited	Business Services	Jun 14	480	713	359	1,072
Biz2Mobile Limited	Software	Oct 16	1,000	621	-	621
DisplayPlan Holdings Limited	Business Services	Jan 12	70	604	820	1,424
£0.5 million and below	Other investments		6,777	4,298	1,311	5,609
Total unquoted investments			**34,249**	**44,946**	**4,968**	**49,914**
Quoted portfolio						
Iomart Group plc	Software	May 11	119	596	209	805
Gooch & Housego plc	Manufacturing	Jan 15	221	566	301	867
EKF Diagnostics plc	Healthcare	Jun 11	411	548	37	585
£0.5 million and below	Other investments		108	756	1,304	2,060
Total quoted investments			**859**	**2,466**	**1,851**	**4,317**
Total portfolio			**35,108**	**47,412**	**6,819**	**54,231**

INVESTMENT PORTFOLIO (cont.)

Total portfolio	**35,108**	**47,412**	**6,819**	**54,231**
Full disposals to date	23,479	-	28,519	28,519
Total investment portfolio	**58,587**	**47,412**	**35,338**	**82,750**

The charts on page 14 of the interim report show the composition of the portfolio as at 30 September 2018 by industry sector, age of investment, investment instrument and the value compared to cost.

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 2017. 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 of the 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;
- Market/liquidity.

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2017 on pages 27 and 28, a copy of which is available at www.bscfunds.com.

DIRECTOR'S 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 give a true and 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 true and 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
21 November 2018

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 30 September 2018

		Unaudited 9 months ended 30 September 2018			Unaudited 9 months ended 30 September 2017		
	Notes	**Revenue**	**Capital**	**Total**	Revenue	Capital	Total
		£000	**£000**	**£000**	£000	£000	£000
Gains on investments held at fair value		**-**	**2,795**	**2,795**	-	775	775
Income	2	**1,234**	**-**	**1,234**	1,086	-	1,086
(Loss) gain on disposal of investments	6	**-**	**(156)**	**(156)**	-	572	572
Total income		**1,234**	**2,639**	**3,873**	1,086	1,347	2,433
Administrative expenses:							
Investment Adviser's fee		**(228)**	**(679)**	**(907)**	(214)	(644)	(858)
Other expenses		**(333)**	**-**	**(333)**	(337)	-	(337)
		(561)	**(679)**	**(1,240)**	(551)	(644)	(1,195)
Profit before taxation		**673**	**1,960**	**2,633**	535	703	1,238
Taxation	3	**(56)**	**56**	**-**	(63)	63	-
Profit for the period		**617**	**2,016**	**2,633**	472	766	1,238
Total comprehensive income for the period		**617**	**2,016**	**2,633**	472	766	1,238
Basic and diluted earnings per ordinary share	5	**0.58p**	**1.89p**	**2.47p**	0.47p	0.77p	1.24p

The Total column of this statement represents the Company's Unaudited 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' (issued in November 2014 and updated in February 2018 with consequential amendments – "SORP") published by the Association of Investment Companies.

UNAUDITED BALANCE SHEET

as at 30 September 2018

	Notes	**Unaudited 30 September 2018**	Unaudited 30 September 2017	Audited 31 December 2017
		£000	£000	£000
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	6	**47,412**	40,465	40,423
Trade and other receivables		**1,128**	786	825
		48,540	41,251	41,248
Current assets				
Trade and other receivables		**393**	593	392
Cash on fixed term deposit		**1,988**	1,988	1,988
Cash and cash equivalents		**11,692**	14,960	15,681
		14,073	17,541	18,061
Liabilities				
Current liabilities				
Trade and other payables		**(112)**	(221)	(253)
Net current assets		**13,961**	17,320	17,808
Net assets		**62,501**	58,571	59,056
Shareholders' equity				
Share capital		**11,318**	10,450	10,450
Share premium account		**4,345**	270	257
Capital redemption reserve		**88**	88	88
Other reserve		**2**	2	2
Merger reserve		**5,525**	5,525	5,525
Capital reserve		**27,291**	33,674	32,198
Investment holding gains and losses		**12,335**	7,257	9,090
Revenue reserve		**1,597**	1,305	1,446
Total shareholders' equity		**62,501**	58,571	59,056
Net asset value per ordinary share	7	**58.1p**	57.9p	58.8p

UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the nine months ended 30 September 2018

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains and losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2016	**9,652**	**16,902**	**5,615**	**15,621**	**7,077**	**1,242**	**56,109**
Revenue return for the period	-	-	-	-	-	*535*	*535*
Capital expenses	-	-	-	*(644)*	-	-	*(644)*
Investment holding gain on investments held at fair value	-	-	-	-	*775*	-	*775*
Realisation of investments in the period	-	-	-	*572*	-	-	*572*
Taxation	-	-	-	*63*	-	*(63)*	-
Total comprehensive (expense) income for the period	-	-	-	(9)	775	472	1,238
Issue of ordinary share capital	*679*	*3,571*	-	-	-	-	*4,250*
Issue of shares - DRIS	*119*	*539*	-	-	-	-	*658*
*Issue costs of ordinary shares***	-	*(163)*	-	*(9)*	-	-	*(172)*
Cancellation of share premium account, net of costs	-	*(20,579)*	-	*20,569*	-	-	*(10)*
Purchase of own shares	-	-	-	*(482)*	-	-	*(482)*
Dividends	-	-	-	*(2,611)*	-	*(409)*	*(3,020)*
Total transactions with owners	798	(16,632)	-	17,467	-	(409)	1,224
Realisation of prior year investment holding gains	-	-	-	595	(595)	-	-
At 30 September 2017	**10,450**	**270**	**5,615**	**33,674**	**7,257**	**1,305**	**58,571**
Revenue return for the period	-	-	-	-	-	*151*	*151*
Capital expenses	-	-	-	*(222)*	-	-	*(222)*
Investment holding gain on investments held at fair value	-	-	-	-	*1,434*	-	*1,434*
Realisation of investments in the period	-	-	-	*(532)*	-	-	*(532)*
Taxation	-	-	-	*10*	-	*(10)*	-
Total comprehensive (expense) income for the period	-	-	-	(744)	1,434	141	831
*Issue costs of ordinary shares***	-	*(13)*	-	*(1)*	-	-	*(14)*
Purchase of own shares	-	-	-	*(332)*	-	-	*(332)*
Total transactions with owners	-	(13)	-	(333)	-	-	(346)
Realisation of prior year investment holding losses	-	-	-	(399)	399	-	-
At 31 December 2017	**10,450**	**257**	**5,615**	**32,198**	**9,090**	**1,446**	**59,056**

At 31 December 2017	**10,450**	**257**	**5,615**	**32,198**	**9,090**	**1,446**	**59,056**
Revenue return for the period	-	-	-	-	-	*673*	*673*
Capital expenses	-	-	-	*(679)*	-	-	*(679)*
Investment holding gain on investments held at fair value	-	-	-	-	*2,795*	-	*2,795*
Realisation of investments in the period	-	-	-	*(156)*	-	-	*(156)*
Taxation	-	-	-	*56*	-	*(56)*	-
Total comprehensive (expense) income for the period	-	-	-	(779)	2,795	617	2,633
Issue of ordinary share capital	*737*	*3,663*	-	-	-	-	*4,400*
Issue of shares - DRIS	*131*	*586*	-	-	-	-	*717*
*Issue costs of ordinary shares***	-	*(161)*	-	*(5)*	-	-	*(166)*
Purchase of own shares	-	-	-	*(920)*	-	-	*(920)*
Unclaimed dividends	-	-	-	*6*	-	-	*6*
Dividends	-	-	-	*(2,759)*	-	*(466)*	*(3,225)*
Total transactions with owners	868	4,088	-	(3,678)	-	(466)	812
Realisation of prior year investment holding losses	-	-	-	(450)	450	-	-
At 30 September 2018	**11,318**	**4,345**	**5,615**	**27,291**	**12,335**	**1,597**	**62,501**

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

** Issue costs include both fundraising costs (where applicable) and costs incurred from the Company's DRIS.

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	Revenue reserve	Total
	£000	£000	£000
Distributable reserves as above	**27,291**	**1,597**	**28,888**
Less : Interest and dividends not yet distributable	-	(1,519)	(1,519)
: Cancelled share premium not yet distributable	(20,237)	-	(20,237)
Reserves available for distribution*	**7,054**	**78**	**7,132**

* subject to filing these interim financial statements at Companies House.

The capital reserve (£27,291,000) and the revenue reserve (£1,597,000) are both distributable reserves. These reserves total £28,888,000, representing a decrease of £4,756,000 in the period since 31 December 2017. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £28,888,000 shown above, £1,519,000 relates to interest and dividends receivable from 2019 onwards and £20,237,000 to cancelled share premium which becomes distributable from 1 January 2019 onwards (see below).

Total share premium previously cancelled will be available for distribution from the following dates.

	£000
1 January 2019	12,995
1 January 2020	3,565
1 January 2021	3,677
Cancelled share premium not yet distributable	**20,237**

UNAUDITED STATEMENT OF CASH FLOWS

for the nine months ended 30 September 2018

	Notes	**Unaudited 9 months ended 30 September 2018**	Unaudited 9 months ended 30 September 2017	Audited year ended 31 December 2017
		£000	£000	£000
Profit before taxation		**2,633**	1,238	2,069
Decrease in trade and other payables		**(59)**	(24)	(45)
(Increase) decrease in trade and other receivables		**(330)**	32	73
Loss (gain) on disposal of investments		**156**	(572)	(40)
Gains on investments held at fair value		**(2,795)**	(775)	(2,209)
Capitalised interest and dividends		**-**	-	(59)
Net cash outflow from operating activities		**(395)**	(101)	(211)
Cash flows from investing activities				
Purchase of financial assets at fair value through profit or loss	6	**(5,534)**	(2,371)	(2,371)
Proceeds from sale of financial assets at fair value through profit or loss	6	**1,070**	2,316	3,479
Deferred consideration received		**139**	34	34
Cash maturing from fixed term deposit		**-**	1,049	1,049
Net cash (outflow) inflow from investing activities		**(4,325)**	1,028	2,191
Cash flows from financing activities				
Issue of ordinary shares		**4,394**	4,230	4,230
Costs of ordinary share issues*		**(145)**	(166)	(166)
Purchase of own shares		**(920)**	(482)	(814)
Share premium cancellation costs		**-**	(10)	(10)
Dividends paid	4	**(2,598)**	(2,365)	(2,365)
Net cash inflow from financing activities		**731**	1,207	875
Net (decrease) increase in cash and cash equivalents		**(3,989)**	2,134	2,855
Cash and cash equivalents at the beginning of the period		**15,681**	12,826	12,826
Cash and cash equivalents at the end of the period		**11,692**	14,960	15,681

*Issue costs include both fundraising costs and expenses incurred from the Company's DRIS.

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 true and fair review of the information required by rules 4.2.7 and 4.2.8 of the Disclosure Rules and the Transparency Rules; and
- the interim statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority.

The interim statements are unaudited but have been reviewed by the auditors pursuant to the International Standard of Review Engagements 2410 (UK and Ireland) guidance on Review of Interim Financial Information Performed by the Independent Auditor of the Entity. 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 2017 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2017. 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 interim statements are the same as those adopted in the preparation of the audited financial statements for the year ended 31 December 2017. New standards coming into force during the period have not had a material impact on these interim financial statements.

The financial statements for the year ended 31 December 2017 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 SORP is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

The Company has carried out an assessment of accounting standards, amendments and interpretations that have been issued by the IASB and that are effective for the current reporting period. These include IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The Company has determined that IFRS 15 and other amendments/interpretations that are newly effective do not affect the Company's performance or position. In respect of IFRS 9 which replaces IAS 39, the Company continues to account for its investment assets at fair value through profit or loss as permitted by IFRS 9. Trade receivables continue to be accounted for at amortised cost and the Company now applies the new IFRS 9 expected credit loss impairment model to these financial assets. The impact of recognising impairment based on expected credit losses rather than on an incurred basis is minimal.

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 interim statements were approved. As at 30 September 2018 the Company held cash balances and fixed term deposits with a combined value of £13,680,000. 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 interim statements.

2 Income

	Unaudited 9 months ended 30 September 2018 £000	Unaudited 9 months ended 30 September 2017 £000
Income from investments		
- Dividends from unquoted companies	**364**	193
- Dividends from AIM quoted companies	**16**	15
	380	208
- Interest on loans to unquoted companies	**763**	789
Income from investments held at fair value through profit or loss	**1,143**	997
Interest on bank deposits	**91**	89
	1,234	1,086

3 Taxation

	Unaudited 9 months ended 30 September 2018			Unaudited 9 months ended 30 September 2017		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit before taxation	**673**	**1,960**	**2,633**	535	703	1,238
Profit before taxation multiplied by the blended standard small company rate of corporation tax in UK of 19.0% (2017: 19.5%)	**128**	**372**	**500**	104	137	241
Effect of:						
UK dividends received	**(72)**	**-**	**(72)**	(41)	-	(41)
Non-taxable profits on investments	**-**	**(501)**	**(501)**	-	(263)	(263)
Excess expenses	**-**	**73**	**73**	-	63	63
Tax charge (credit)	**56**	**(56)**	**-**	63	(63)	-

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.

4 **Dividends**

Amounts recognised as distributions to equity holders in the period:

	Unaudited 9 months ended 30 September 2018			Unaudited 9 months ended 30 September 2017			Audited year ended 31 December 2017		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000	£000	£000	£000
Final dividend for the year ended 31 December 2017 of 1.5p (2016: 1.5p) per ordinary share	**265**	**1,347**	**1,612**	177	1,334	1,511	177	1,334	1,511
Interim dividend for the year ending 31 December 2018 of 1.5p (2017: 1.5p) per ordinary share	**201**	**1,412**	**1,613**	232	1,277	1,509	232	1,277	1,509
	466	**2,759**	**3,225**	409	2,611	3,020	409	2,611	3,020
Shares allotted under DRIS			**(717)**			(658)			(658)
Unclaimed dividends			**90**			3			3
Dividends paid in the Statement of Cash Flows			**2,598**			2,365			2,365

5 **Basic and Diluted Earnings per Ordinary Share and Changes in Share Capital**

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to equity shareholders of £2,633,000 (30 September 2017: £1,238,000) and 106,438,144 (30 September 2017: 99,655,004) 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 £617,000 (30 September 2017: £472,000) and 106,438,144 (30 September 2017: 99,655,004) 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 £2,016,000 (30 September 2017: £766,000) and 106,438,144 (30 September 2017: 99,655,004) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 1,313,755 new ordinary shares in respect of its dividend re-investment scheme and 7,366,700 new ordinary shares of 10 pence each under the offer for subscription launched on 11 January 2018, which raised gross proceeds of £4.40 million.

The Company has repurchased 1,659,152 of its own shares in the period and these shares are held in the capital reserve. The total of 5,665,503 treasury shares has been excluded in calculating the weighted average number of ordinary shares during the period.

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 Adviser Agreement. No such shares have been issued or are currently expected to be issued. Consequently basic and diluted earnings per ordinary share are equivalent at 30 September 2018, 31 December 2017 and 30 September 2017.

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 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 or sales multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The majority of the Company's investments fall into this category.

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 (2017: 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).

Subsequent Measurement: The International Private Equity and Venture Capital (IPEV) 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 page 53 of the financial statements for the year ended 31 December 2017, 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 changes 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.
- **Sales multiples and industry valuation benchmarks**: Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

Movements in investments at fair value through profit or loss during the nine months to 30 September 2018 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments £000	Level 1 Quoted Equity Investments £000	**Total Investments £000**
Opening cost	30,115	1,248	**31,363**
Opening valuation gain	8,026	1,034	**9,060**
Opening fair value at 1 January 2018	**38,141**	**2,282**	**40,423**
Additions at cost	5,534	-	**5,534**
Disposal proceeds	(807)	(300)	**(1,107)**
Net (loss) gain on disposal	(258)	25	**(233)**
Change in fair value	2,336	459	**2,795**
Closing fair value at 30 September 2018	**44,946**	**2,466**	**47,412**
Closing cost	34,249	859	**35,108**
Closing valuation gain	10,697	1,607	**12,304**
Closing fair value at 30 September 2018	**44,946**	**2,466**	**47,412**

The net loss on disposal in the table above is £233,000 whereas that shown in the Statement of Comprehensive Income is a loss of £156,000. The difference comprises the net gain of £77,000 arising on deferred proceeds in respect of assets which have been disposed of and are not included within the investment portfolio at the period end.

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 £2,998,000 (6.7 per cent) lower. Using the upside alternative the value would be increased by £3,246,000 (7.2) per cent).

Of the Company's investments, 95 per cent are in unquoted companies held at fair value (31 December 2017: 94 per cent). The valuation methodology for these investments includes the application of externally produced sales multiples and 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 earnings and sales multiple methodologies 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 £3,542,000 (5.7 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 the same amount.

Of the Company's equity investments, 5 per cent are quoted on AIM (31 December 2017: 6 per cent). A 5 per cent increase in stock prices as at 30 September 2018 would have increased the net assets attributable to the Company's shareholders and the total profit for the period by £123,000 (31 December 2017: £114,000). 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 fair value adjustments downwards during the period that exceeded 5 per cent of the total assets of the Company (31 December 2017: none).

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 2018	Gain (loss) over opening carrying value	Profit (loss) on original cost
	£000	£000	£000	£000	£000
Unquoted investments					
ACC Aviation (via NewACC (2014) Limited)	615	615	615	-	-
GTK (Holdco) Limited	149	149	149	-	-
Macro Art Holdings Limited	43	43	43	-	-
PowerOasis Limited	-	594	258	(258)	(594)
	807	1,401	1,065	(258)	(594)
Quoted investments					
AB Dynamics plc	139	12	118	21	127
Allergy Therapeutics plc	124	351	132	(8)	(227)
EKF Diagnostics plc	37	26	25	12	11
	300	389	275	25	(89)
Total from disposals in the period	**1,107**	**1,790**	**1,340**	**(233)**	**(683)**
Revaluation of deferred consideration:					
Ness (Holdings) Limited	-	-	42	(42)	-
Selima Holding Company Ltd	139	-	20	119	139
Total from quoted and unquoted investments	**1,246**	**1,790**	**1,402**	**(156)**	**(544)**

The proceeds in the table above total £1,246,000, whereas that shown in the Statement of Cash Flows (including deferred consideration) is £1,209,000. The difference comprises proceeds of £37,000 received shortly after the period end.

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 £62,501,000 (30 September 2017 and 31 December 2017: £58,571,000 and £59,056,000 respectively) and 107,511,878 (30 September 2017 and 31 December 2017: 101,091,180 and 100,490,575 respectively) ordinary shares in issue at 30 September 2018.

The 5,665,503 (30 September 2017 and 31 December 2017: 3,405,746 and 4,006,351) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 September 2018.

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 Adviser Agreement. No such shares have been issued or are currently expected to be issued. Consequently, basic and diluted net asset values are equivalent at 30 September 2018, 31 December 2017 and 30 September 2017.

8 Total Return

Total Return per share is calculated on cumulative dividends paid of 58.5 pence per ordinary share (30 September 2017: 55.5 pence per ordinary share and 31 December 2017: 55.5 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 Post Balance Sheet Events

Subsequent to 30 September 2018 the Company has realised part of its quoted portfolio raising total proceeds of £1,012,000, in line with the value of the investments at 30 September 2018.

11 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.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

For further information, please contact:

David Hall	YFM Private Equity Limited	Tel: 0113 244 1000
Jonathan Becher	Panmure Gordon (UK) Limited	Tel: 0207 886 2715