

# British Smaller Companies VCT2 plc

## Unaudited Interim Results and Interim Management Report

### For the six months ended 30 June 2019

British Smaller Companies VCT2 plc (the “Company”) today announces its unaudited interim results for the six months to 30 June 2019.

#### HIGHLIGHTS

- Investment of £6.9 million into four new and five follow-on investments during the period.
- Offer for subscription alongside British Smaller Companies VCT plc fully subscribed, raising net funds of £12.7 million.
- A special dividend of 5.0 pence per ordinary share in respect of the year ending 31 December 2019 was paid on 15 February 2019 and a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2018 was paid on 10 May 2019. As a result cumulative dividends paid since your Company’s inception increased to 65.0 pence per ordinary share.
- Proposed interim dividend of 1.5 pence per ordinary share in respect of the year ending 31 December 2019.
- Total Return unchanged at 118.4 pence per ordinary share at 30 June 2019.

#### CHAIRMAN’S STATEMENT

**Total Return** for the six months was unchanged at 118.4 pence per ordinary share. There was a positive gain from the portfolio of 0.3 pence per ordinary share which was offset by the impact of the fundraising and net income after expenses.

#### New Investment

As previously reported your Company has begun to self-assure on selected new investments and this has had a positive impact on the level of investment so far this year. Consequently, in the first six months of 2019, your Company completed new and follow-on investments totalling £6.9 million comprising four new investments and five follow-on investments. These were:

In March 2019 £1.2 million was invested into **Frescobol Carioca Ltd**, the luxury men’s resort wear and lifestyle brand.

In May 2019 your Company invested £1.4 million into **Wooshii Limited**, a disruptive video agency.

Also in May 2019 your Company made a new investment of £1.4 million into **Elucidat Limited**, an e-learning software business.

During June 2019 £1.6 million was invested into **Tonkotsu Limited**, a ramen restaurant group.

Follow-on investments totalling £1.3 million were made into five existing portfolio companies, including an additional investment of £0.75 million into **Arcus Global Limited**.

## Financial Results and Dividends

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

<b>Total Return</b>	Pence per ordinary share
Total Return at 1 January 2019	118.4
Net underlying increase in portfolio	0.3
Net income after expenses	(0.2)
Issue/buy-back of shares	(0.1)
Movement in Total Return	-
<b>Total Return at 30 June 2019</b>	<b>118.4</b>

The portfolio produced a value gain of £0.4 million, representing a 1.0 per cent increase over the opening value and equivalent to an increase in value for shareholders of 0.3 pence per ordinary share.

Investments made since the changes to the VCT rules in November 2015 now comprise £19.8 million (46 per cent) of the unquoted portfolio as at 30 June 2019, with £23.0 million (54 per cent) of investments made prior to the rule changes. 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.

The resultant movements in net asset value (“NAV”) per ordinary share and the dividends paid are set out in the table below:

<b>Net Asset Value</b>	£000	Pence per ordinary share
NAV at 1 January 2019	64,054	59.9
Net underlying increase in portfolio	385	0.3
Net income after expenses	(244)	(0.2)
Issue/buy-back of shares	13,307	(0.1)
NAV before the payment of dividends	77,502	59.9
Dividends paid	(7,326)	(6.5)
<b>NAV at 30 June 2019</b>	<b>70,176</b>	<b>53.4</b>

## Dividends

Following the three realisations in December 2018 the Company paid a special dividend of 5.0 pence per ordinary share in respect of the year ending 31 December 2019 on 15 February 2019.

A final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2018 was paid on 10 May 2019, bringing the cumulative dividends paid to date to 65.0 pence per ordinary share.

Your Board has proposed an interim dividend of 1.5 pence per ordinary share for the year ending 31 December 2019 which, when combined with the above dividends paid in the period will bring total dividends paid in the current financial year to 8.0 pence per ordinary share (2018: 3.0 pence per ordinary share). The interim dividend will be paid on 23 September 2019 to shareholders on the register on 23 August 2019.

Future performance is becoming more reliant on investments made since the VCT rule changes in November 2015. These businesses tend to be re-investing profits for growth and in many cases are expected to require multiple funding rounds. The Company’s cash returns will therefore become more reliant on successful exits. In light of this your Board will continue to monitor the Company’s dividend policy.

## **Shareholder Relations**

As part of the Board's continuing communication with shareholders, the 24th shareholder workshop was held in conjunction with British Smaller Companies VCT plc at Gibson Hall on 20 June 2019. Shareholders saw presentations from Friska Limited, Matillion Limited and Frescobol Carioca Ltd. The Company's performance, portfolio and outlook were discussed in talks given by the Investment Adviser, followed by a question and answer session.

A large number of shareholders (83 percent) now receive documents such as the annual report via the website, [www.bscfunds.com](http://www.bscfunds.com), rather than by post. This meets the Board's impact objectives as well as reducing printing costs. Your Board continues to encourage all shareholders to take up this option.

Your Company's website [www.bscfunds.com](http://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**

As noted above the Company has begun to self-assure new investments on a case-by-case basis and only where professional advice confirms that they can easily be defined as a Qualifying Investment. Advance assurance is sought where there is an element of uncertainty over the application of the rules.

## **Fundraising**

The new share offer launched on 28 November 2018 with British Smaller Companies VCT plc closed on 11 February 2019 raising total gross proceeds across both VCTs of £35 million. The related allotment of 23,205,679 ordinary shares took place on 1 April 2019 following which your Company received net proceeds of £12.7 million.

## **Board Composition**

Following completion of the 2019 Annual General Meeting, Richard Last stepped down as Chairman and Director and I am delighted to have taken on the role of Chairman at an exciting time for your Company.

## **Outlook**

Given the short time available before 31 October, the recent appointment of a new Prime Minister and the subsequent changes to the Cabinet have made a no-deal Brexit more likely. While the businesses in the portfolio believe they are as prepared as they can be for such an event there is no doubt that any economic slowdown in the UK could have an impact on some performances over the medium term. There may well be an offsetting effect for the net exporters, of which there are a number, but the overall impact remains a little uncertain. We continue to implement as much risk mitigation as possible into the strategies of the individual investments.

The investment rate has been strong so far this year and there are a number of attractive opportunities in the current pipeline which should help us to maintain this momentum.

## **OBJECTIVES AND STRATEGY**

The Company's objective is to maximise Total Return and provide investors with an attractive long-term tax-free dividend yield while maintaining the Company's status as a venture capital trust.

The investment strategy of the Company is to invest in UK businesses across a broad range of sectors to create a portfolio that blends a mix of businesses operating in established and emerging industries that offer opportunities in the application and development of innovation in their products and services.

These investments will all meet the definition of a Qualifying Investment and be primarily in unquoted UK companies. 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.

## INVESTMENT REVIEW

The Company's portfolio at 30 June 2019 had a value of £43.73 million consisting of £42.83 million (98 per cent) in unquoted investments and £0.90 million (2 per cent) in quoted investments. The largest single investment represents 8.8 per cent of the net asset value.

Over the six months to 30 June 2019 the portfolio saw an underlying value gain of £0.26 million from the ongoing portfolio comprising £0.19 million from the unquoted portfolio and £0.07 million from the quoted portfolio.

The most significant upward movements in the period were:

• ACC Aviation	£0.93 million
• Business Collaborator	£0.34 million
• Matillion	£0.31 million

These gains were offset by companies which saw profits impacted by difficult trading conditions resulting in downward movements:

• Arcus Global	£0.37 million
• Macro Art	£0.36 million
• KeTech Enterprises	£0.36 million

### New and Follow-on Investments

In the six months to 30 June 2019 the Company has invested £5.63 million into four new investments and £1.24 million into five follow-on investments, including £0.75 million into Arcus Global Limited.

The new investments comprise:

- £1.59 million into Tonkotsu Limited
- £1.44 million into Wooshii Limited
- £1.40 million into Elucidat Limited and
- £1.20 million into Frescobol Carioca Ltd.

### Realisation of Investments

During the six months to 30 June 2019 the Company generated £1.75 million from disposals and repayments of loans. This included the full exit from its investment in Leengate Holdings Limited.

A detailed analysis of all investments realised in the period to 30 June 2019 can be found in note 6 to this interim report.

## INVESTMENT PORTFOLIO

The top 10 investments had a combined value of £28.2 million, 64.5 per cent of the total portfolio.

Name of Company	Sector	First investment	Current cost £000	Value at 30 June 2019 £000	Proceeds to date £000	Capital return to date £000
ACC Aviation Group Limited	Business Services	Nov 14	145	6,178	1,233	7,411
Matillion Limited	Software	Nov 16	1,778	5,489	-	5,489
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	Business Services	May 17	1,956	2,970	-	2,970
Business Collaborator Limited	Software	Nov 14	1,340	2,627	-	2,627
Eikon Holdco Limited	Software	Mar 18	2,000	2,342	-	2,342
KeTech Enterprises Limited	Software	Nov 15	1,500	1,971	500	2,471
Deep-Secure Ltd	Software	Dec 09	500	1,786	-	1,786
Springboard Research Holdings Limited	Business Services	Oct 14	1,824	1,675	-	1,675
Tonkotsu Limited	Retail	Jun 19	1,592	1,592	-	1,592
Arcus Global Limited	Software	May 18	1,950	1,585	-	1,585
<b>Total top 10 investments</b>			<b>14,585</b>	<b>28,215</b>	<b>1,733</b>	<b>29,948</b>
<b>Remaining unquoted portfolio</b>						
Wooshii Limited	Business Services	May 19	1,440	1,440	-	1,440
Elucidat Limited	Software	May 19	1,400	1,400	-	1,400
Frescobol Carioca Ltd	Retail	Mar 19	1,200	1,200	-	1,200
Sipsynergy (via Hosted Network Services Limited)	Software	Jun 16	1,309	1,141	-	1,141
Friska Limited	Retail	Jul 17	1,200	1,116	-	1,116
Ncam Technologies Limited	Software	Mar 18	1,268	985	-	985
Traveltek Group Holdings Limited	Software	Oct 16	1,114	802	-	802
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing	Dec 14	720	750	41	791
Biz2Mobile Limited	Software	Oct 16	1,106	748	-	748
DisplayPlan Holdings Limited	Business Services	Jan 12	70	648	820	1,468
£0.5 million and below	Other investments		9,888	4,386	1,683	6,069
<b>Total unquoted investments</b>			<b>35,300</b>	<b>42,831</b>	<b>4,277</b>	<b>47,108</b>
<b>Quoted portfolio investments £0.5 million and below</b>			586	894	673	1,567
			<b>35,886</b>	<b>43,725</b>	<b>4,950</b>	<b>48,675</b>
Full disposals to date			30,905	-	43,762	43,762
<b>Total portfolio</b>			<b>66,791</b>	<b>43,725</b>	<b>48,712</b>	<b>92,437</b>

The charts on page 12 of the interim report show the composition of the portfolio as at 30 June 2019 by age of investment, industry sector, investment instrument and period of investment in relation to VCT rule changes.

## **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 2018. 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; and
- Market/liquidity.

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2018 on pages 28 and 29, a copy of which is available at [www.bscfunds.com](http://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 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

**Peter Waller**  
Chairman  
14 August 2019

**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**  
**for the six months ended 30 June 2019**

	Notes	Unaudited 6 months ended 30 June 2019			Unaudited 6 months ended 30 June 2018		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Income	2	552	-	552	859	-	859
Gains on investments held at fair value	6	-	255	255	-	1,616	1,616
Gains on disposal of investments	6	-	130	130	-	65	65
<b>Total income</b>		<b>552</b>	<b>385</b>	<b>937</b>	<b>859</b>	<b>1,681</b>	<b>2,540</b>
Administrative expenses:							
Investment Adviser's fee		(141)	(424)	(565)	(147)	(444)	(591)
Other expenses		(231)	-	(231)	(228)	-	(228)
		<b>(372)</b>	<b>(424)</b>	<b>(796)</b>	<b>(375)</b>	<b>(444)</b>	<b>(819)</b>
<b>Profit (loss) before taxation</b>		<b>180</b>	<b>(39)</b>	<b>141</b>	<b>484</b>	<b>1,237</b>	<b>1,721</b>
Taxation	3	(5)	5	-	(41)	41	-
<b>Profit (loss) for the period</b>		<b>175</b>	<b>(34)</b>	<b>141</b>	<b>443</b>	<b>1,278</b>	<b>1,721</b>
<b>Total comprehensive income (expense) for the period</b>		<b>175</b>	<b>(34)</b>	<b>141</b>	<b>443</b>	<b>1,278</b>	<b>1,721</b>
<b>Basic and diluted earnings (loss) per ordinary share</b>	5	<b>0.15p</b>	<b>(0.03p)</b>	<b>0.12p</b>	<b>0.42p</b>	<b>1.21p</b>	<b>1.63p</b>

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 June 2019

	Notes	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	Audited 31 December 2018 £000
<b>Assets</b>				
<b>Non-current assets at fair value through profit and loss</b>				
Financial assets	6	43,725	46,634	38,102
Accrued income and other assets		504	1,004	467
		<b>44,229</b>	<b>47,638</b>	<b>38,569</b>
<b>Current assets</b>				
Accrued income and other assets		505	462	552
Cash on fixed term deposit		1,988	1,988	1,988
Cash and cash equivalents		23,534	13,318	23,115
		<b>26,027</b>	<b>15,768</b>	<b>25,655</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(80)	(172)	(170)
<b>Net current assets</b>		<b>25,947</b>	<b>15,596</b>	<b>25,485</b>
<b>Net assets</b>		<b>70,176</b>	<b>63,234</b>	<b>64,054</b>
<b>Shareholders' equity</b>				
Share capital		13,949	11,252	11,318
Share premium account		16,105	4,073	4,351
Capital redemption reserve		88	88	88
Other reserve		2	2	2
Merger reserve		5,525	5,525	5,525
Capital reserve		25,586	29,745	33,694
Investment holding gains and losses reserve		7,868	10,925	7,335
Revenue reserve		1,053	1,624	1,741
<b>Total shareholders' equity</b>		<b>70,176</b>	<b>63,234</b>	<b>64,054</b>
<b>Net asset value per ordinary share</b>	7	<b>53.4p</b>	58.8p	59.9p



## UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains and losses reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2017</b>	<b>10,450</b>	<b>257</b>	<b>5,615</b>	<b>32,198</b>	<b>9,090</b>	<b>1,446</b>	<b>59,056</b>
<i>Revenue return for the period</i>	-	-	-	-	-	484	484
<i>Capital expenses</i>	-	-	-	(444)	-	-	(444)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	1,616	-	1,616
<i>Realisation of investments in the period</i>	-	-	-	65	-	-	65
<i>Taxation</i>	-	-	-	41	-	(41)	-
Total comprehensive (expense) income for the period	-	-	-	(338)	1,616	443	1,721
<i>Issue of ordinary share capital</i>	737	3,663	-	-	-	-	4,400
<i>Issue of shares - DRIS</i>	65	294	-	-	-	-	359
<i>Issue costs of ordinary shares**</i>	-	(141)	-	(5)	-	-	(146)
<i>Purchase of own shares</i>	-	-	-	(544)	-	-	(544)
<i>Dividends</i>	-	-	-	(1,347)	-	(265)	(1,612)
Total transactions with owners	802	3,816	-	(1,896)	-	(265)	2,457
Realisation of prior year investment holding losses	-	-	-	(219)	219	-	-
<b>At 30 June 2018</b>	<b>11,252</b>	<b>4,073</b>	<b>5,615</b>	<b>29,745</b>	<b>10,925</b>	<b>1,624</b>	<b>63,234</b>
<i>Revenue return for the period</i>	-	-	-	-	-	334	334
<i>Capital expenses</i>	-	-	-	(399)	-	-	(399)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	(240)	-	(240)
<i>Realisation of investments in the period</i>	-	-	-	3,038	-	-	3,038
<i>Taxation</i>	-	-	-	16	-	(16)	-
Total comprehensive income (expense) for the period	-	-	-	2,655	(240)	318	2,733
<i>Issue of shares - DRIS</i>	66	293	-	-	-	-	359
<i>Issue costs of ordinary shares**</i>	-	(15)	-	(1)	-	-	(16)
<i>Unclaimed dividends</i>	-	-	-	7	-	-	7
<i>Purchase of own shares</i>	-	-	-	(650)	-	-	(650)
<i>Dividends</i>	-	-	-	(1,412)	-	(201)	(1,613)
Total transactions with owners	66	278	-	(2,056)	-	(201)	(1,913)
Realisation of prior year investment holding gains	-	-	-	3,350	(3,350)	-	-
<b>At 31 December 2018</b>	<b>11,318</b>	<b>4,351</b>	<b>5,615</b>	<b>33,694</b>	<b>7,335</b>	<b>1,741</b>	<b>64,054</b>

<b>At 31 December 2018</b>	<b>11,318</b>	<b>4,351</b>	<b>5,615</b>	<b>33,694</b>	<b>7,335</b>	<b>1,741</b>	<b>64,054</b>
<i>Capital expenses</i>	-	-	-	(424)	-	-	(424)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	255	-	255
<i>Realisation of investments in the period</i>	-	-	-	130	-	-	130
<i>Taxation</i>	-	-	-	5	-	(5)	-
Total comprehensive (expense) income for the period	-	-	-	(289)	255	175	141
<i>Issue of ordinary share capital</i>	2,321	10,959	-	-	-	-	13,280
<i>Issue of shares - DRIS</i>	310	1,259	-	-	-	-	1,569
<i>Issue costs of ordinary shares**</i>	-	(464)	-	(136)	-	-	(600)
<i>Purchase of own shares</i>	-	-	-	(942)	-	-	(942)
<i>Dividends</i>	-	-	-	(6,463)	-	(863)	(7,326)
Total transactions with owners	2,631	11,754	-	(7,541)	-	(863)	5,981
Realisation of prior year investment holding losses	-	-	-	(278)	278	-	-
<b>At 30 June 2019</b>	<b>13,949</b>	<b>16,105</b>	<b>5,615</b>	<b>25,586</b>	<b>7,868</b>	<b>1,053</b>	<b>70,176</b>

\*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 £000	Revenue reserve £000	Total £000
<b>Distributable reserves as before</b>	<b>25,586</b>	<b>1,053</b>	<b>26,639</b>
Less : Income and proceeds not yet distributable	(388)	(1,008)	(1,396)
: Revaluation losses	(410)	-	(410)
: Cancelled share premium not yet distributable	(7,242)	-	(7,242)
<b>Reserves available for distribution*</b>	<b>17,546</b>	<b>45</b>	<b>17,591</b>

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

The capital reserve and the revenue reserve are both distributable reserves. These reserves total £26,639,000, representing a decrease of £8,796,000 in the period since 31 December 2018. 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 £26,639,000 shown above, £1,396,000 relates to income and proceeds not yet receivable and £7,242,000 to cancelled share premium which becomes distributable from 1 January 2020 onwards (see below). In addition revaluation losses of £410,000 included within the investment holding gains and losses reserve are not considered to be recoverable.

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

	£000
1 January 2020	3,565
1 January 2021	3,677
<b>Cancelled share premium not yet distributable</b>	<b>7,242</b>

**UNAUDITED STATEMENT OF CASH FLOWS**  
for the six months ended 30 June 2019

	Notes	Unaudited 6 months ended 30 June 2019  £000	Unaudited 6 months ended 30 June 2018  £000	Audited year ended 31 December 2018  £000
Profit before taxation		141	1,721	4,454
(Decrease) increase in trade and other payables		(90)	(176)	14
(Increase) decrease in accrued income and other assets		(96)	(81)	366
Gains on disposal of investments		(130)	(65)	(3,103)
Gains on investments held at fair value		(255)	(1,616)	(1,376)
Capitalised interest and dividends		-	-	(133)
<b>Net cash (outflow) inflow from operating activities</b>		<b>(430)</b>	<b>(217)</b>	<b>222</b>
<b>Cash flows from investing activities</b>				
Purchase of financial assets at fair value through profit or loss	6	(6,867)	(5,534)	(5,647)
Proceeds from sale of financial assets at fair value through profit or loss	6	1,612	931	12,224
Deferred consideration	6	123	-	189
<b>Net cash (outflow) inflow from investing activities</b>		<b>(5,132)</b>	<b>(4,603)</b>	<b>6,766</b>
<b>Cash flows from financing activities</b>				
Issue of ordinary shares		13,280	4,380	4,379
Costs of ordinary share issues*		(600)	(126)	(141)
Purchase of own shares		(942)	(544)	(1,194)
Dividends paid	4	(5,757)	(1,253)	(2,598)
<b>Net cash inflow from financing activities</b>		<b>5,981</b>	<b>2,457</b>	<b>446</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>419</b>	<b>(2,363)</b>	<b>7,434</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>23,115</b>	<b>15,681</b>	<b>15,681</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>23,534</b>	<b>13,318</b>	<b>23,115</b>

\*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 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 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 2018 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2018. 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 2018. 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 2018 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.

Standards, amendments to standards and interpretations have been issued which are effective for the current reporting period. The Company has carried out an assessment and considers that these standards, amendments and interpretations do not affect the Company's accounting policies, results or net assets.

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 2019 the Company held cash balances and fixed term deposits with a combined value of £25,522,000. 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

	<b>Unaudited 6 months ended 30 June 2019 £000</b>	Unaudited 6 months ended 30 June 2018 £000
Income from investments		
- Dividends from unquoted companies	<b>149</b>	263
- Dividends from AIM quoted companies	<b>2</b>	8
	<b>151</b>	271
- Interest on loans to unquoted companies	<b>289</b>	527
Income from investments held at fair value through profit or loss	<b>440</b>	798
Interest on bank deposits	<b>112</b>	61
	<b>552</b>	859

## 3 Taxation

	<b>Unaudited 6 months ended 30 June 2019</b>			Unaudited 6 months ended 30 June 2018		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	Revenue	Capital	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Profit (loss) before taxation	<b>180</b>	<b>(39)</b>	<b>141</b>	484	1,237	1,721
Profit (loss) before taxation multiplied by the standard small company rate of corporation tax in UK of 19.0% (2018: 19.0%)	<b>34</b>	<b>(7)</b>	<b>27</b>	92	235	327
Effect of:						
UK dividends received	<b>(29)</b>	-	<b>(29)</b>	(51)	-	(51)
Non-taxable profits on investments	-	<b>(73)</b>	<b>(73)</b>	-	(319)	(319)
Excess expenses	-	<b>75</b>	<b>75</b>	-	43	43
Tax charge (credit)	<b>5</b>	<b>(5)</b>	-	41	(41)	-

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 6 months ended 30 June 2019			Unaudited 6 months ended 30 June 2018			Audited Year ended 31 December 2018		
	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 2018 of 1.5p (2017: 1.5p) per ordinary share	785	1,190	1,975	265	1,347	1,612	265	1,347	1,612
Interim dividend for the year ended 31 December 2019 of 5.0p (2018 1.5p) per ordinary share	78	5,273	5,351	-	-	-	201	1,412	1,613
	<b>863</b>	<b>6,463</b>	<b>7,326</b>	<b>265</b>	<b>1,347</b>	<b>1,612</b>	<b>466</b>	<b>2,759</b>	<b>3,225</b>
Shares allotted under DRIS			(1,569)			(359)			(718)
Unclaimed dividends			-			-			91
Dividends paid in the Statement of Cash Flows			5,757			1,253			2,598

An interim dividend of 1.5 pence per ordinary share, amounting to approximately £2.0 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 (Loss) per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to equity shareholders of £141,000 (30 June 2018: £1,721,000) and 120,024,534 (30 June 2018: 105,882,952) 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 £175,000 (30 June 2018: £443,000) and 120,024,534 (30 June 2018: 105,882,952) 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 loss attributable to equity shareholders of £34,000 (30 June 2018: profit £1,278,000) and 120,024,534 (30 June 2018: 105,882,952) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 3,103,427 new ordinary shares in respect of its dividend re-investment scheme and 23,205,679 new ordinary shares of 10 pence each under the offer for subscription launched on 28 November 2018, which raised gross proceeds of £13.3 million.

The Company has repurchased 1,815,531 of its own shares in the period and these shares are held in the capital reserve. The total of 7,974,092 treasury shares has been excluded in calculating the weighted average number of ordinary shares during the period.

The Company has no dilutive shares and consequently, basic and diluted earnings per ordinary share are equivalent at 30 June 2019, 31 December 2018 and 30 June 2018.

## 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 (2018: 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 57 of the financial statements for the year ended 31 December 2018, a copy of which can be found at [www.bscfunds.com](http://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 six months to 30 June 2019 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments	Level 1 Quoted Equity Investments	Total Investments
	£000	£000	£000
Opening cost	30,042	754	<b>30,796</b>
Opening valuation gain	6,977	329	<b>7,306</b>
<b>Opening fair value at 1 January 2019</b>	<b>37,019</b>	<b>1,083</b>	<b>38,102</b>
Additions at cost	6,867	-	<b>6,867</b>
Disposal proceeds	(1,304)	(308)	<b>(1,612)</b>
Net profit on disposal	59	54	<b>113</b>
Change in fair value	190	65	<b>255</b>
<b>Closing fair value at 30 June 2019</b>	<b>42,831</b>	<b>894</b>	<b>43,725</b>
Closing cost	35,300	586	<b>35,886</b>
Closing valuation gain	7,531	308	<b>7,839</b>
<b>Closing fair value at 30 June 2019</b>	<b>42,831</b>	<b>894</b>	<b>43,725</b>

The net profit on disposal in the table above is £113,000 whereas that shown in the Statement of Comprehensive Income is £130,000. The difference comprises the gain of £17,000 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 £2,423,000 (5.7 per cent) lower. Using the upside alternative the value would be increased by £2,610,000 (6.1 per cent).

Of the Company's investments, 98 per cent are in unquoted companies held at fair value (31 December 2018: 97 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 £3,271,000 (4.7 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 an equal amount.

Of the Company's equity investments, 2 per cent are quoted on AIM (31 December 2018: 3 per cent). A 5 per cent increase in stock prices as at 30 June 2019 would have increased the net assets attributable to the Company's shareholders and the total profit for the period by £45,000 (31 December 2018: £54,000). 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 2018: 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 2019	Gain over opening carrying value
	£000	£000	£000	£000
<i>Unquoted investments</i>				
Leengate Holdings Limited	1,291	716	1,240	51
Hutchinson Networks Limited	-	880	-	-
Seven Technologies Holdings Limited	13	13	5	8
	1,304	1,609	1,245	59
<i>Quoted investments</i>				
AB Dynamics plc	100	8	95	5
Renalytix plc	109	74	73	36
Volex plc	99	86	86	13
	308	168	254	54
<b>Total from disposals in the period</b>	<b>1,612</b>	<b>1,777</b>	<b>1,499</b>	<b>113</b>
<i>Deferred proceeds:</i>				
Selima Holding Company Ltd	134	-	117	17
<b>Total from quoted and unquoted investments</b>	<b>1,746</b>	<b>1,777</b>	<b>1,616</b>	<b>130</b>

The proceeds in the table above total £1,746,000, whereas that shown in the Statement of Cash Flows including deferred consideration is £1,735,000. The difference comprises deferred consideration which is expected to be received after 30 June 2019.

## **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 £70,176,000 (30 June 2018 and 31 December 2018: £63,234,000 and £64,054,000 respectively) and 131,512,395 (30 June 2018 and 31 December 2018: 107,538,444 and 107,018,820 respectively) ordinary shares in issue at 30 June 2019.

The 7,974,092 (30 June 2018 and 31 December 2018: 4,980,851 and 6,158,561 respectively) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 June 2019.

The Company has no potentially dilutive shares and consequently, basic and diluted net asset values are equivalent at 30 June 2019, 31 December 2018 and 30 June 2018.

## **8 Total Return**

Total Return per ordinary share is calculated on cumulative dividends paid of 65.0 pence per ordinary share (30 June 2018: 57.0 pence per ordinary share and 31 December 2018: 58.5 pence per ordinary share) plus the net asset value as calculated in note 7.

## **9 Directors**

The directors of the Company are: Peter Charles Waller, Robert Martin Pettigrew, and Roger Steven McDowell.

## **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](http://www.bscfunds.com).

## **11 Interim Dividend for the Six Months ended 30 June 2019**

Further to the announcement of its interim results for the six months to 30 June 2019, the Company confirms that an interim dividend of 1.5 pence per ordinary share ("Interim Dividend") will be paid on 23 September 2019 to those shareholders on the Company's register at the close of business on 23 August 2019. The ex-dividend date for these dividends will be 22 August 2019.

## **12 Dividend Re-investment Scheme ("DRIS")**

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Interim Dividend is the close of business on 9 September 2019.

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:

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