

Half Yearly Report
for the period from
1 January 2009
to 30 June 2009



BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT **2** plc

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Directors and Advisers

Directors

Richard Last
Philip Simon Cammerman
Robert Martin Pettigrew

Fund Manager

YFM Private Equity Limited
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4BR

Solicitors

Keeble Hawson
Protection House
16-17 East Parade
Leeds LS1 2BR

Secretary and Registered Office

James Ernest Peter Gervasio LL.B.
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

Stockbrokers

Singer Capital Markets
One Hanover Street
London W1S 1AX

Fixed Interest Securities Adviser

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

Independent Auditors

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

VCT Status and Tax Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Bankers

The Royal Bank of Scotland plc
27 Park Row
Leeds LS1 5QB

Chairman's Statement

The six months to 30 June 2009 have first and foremost seen considerable support and effort from the Fund Manager for the existing portfolio. Whilst these are challenging economic times, for well-funded and well-managed businesses they are also a time of considerable opportunity to expand market share either organically or through acquisition. In the last six months the Company has provided financial support to a number of its investments and stands ready with further funds should the need arise.

The overall result for the period has seen the total return increase by 0.8 pence per share to 93.7 pence per share. The net asset value is 75.7 pence per share, which compares to 76.9 pence per share at 31 December 2008. This reflects the recognition of the final interim dividend of 2.0 pence per share and the underlying increase in the residual assets of 0.8 pence per share.

Interim Management Report

The six months to 30 June 2009 have been characterised by a period of review and re-assessment both of the short term trading outlooks for our investments and the medium term opportunities. The companies that we have invested in have not, in general, had significant levels of debt in their businesses and consequently have not been significantly impacted by discussions over covenant tests or having to address re-financing issues.

In the period a further investment of £209,000 was made to support the continuing development of Silistix Limited.

Significant progress has been made by DxS Limited as its products continue to be adopted by the markets. Particularly encouraging progress is being made by both Primal Pictures

Limited and Waterfall Services Limited. Those businesses seeking overseas expansion but yet to break into profitability in the overseas market have found the current exchange rate environment more challenging, but are moving to minimise the exchange rate risk.

The Company continues to review new investment opportunities. During the first three months of the financial year we continued to see a misalignment of vendor and purchaser expectations as well as a degree of caution in businesses that has seen them concentrate more on the short term rather than medium term growth. More recently we have seen a reduction in pricing expectations although caution still exists. However, the Board remains of the opinion that there will be a growing number of good investment opportunities over the next 12 to 24 months.

Financial Results

The result for the six months ended 30 June 2009 produced a revenue profit before tax of £38,000 and a capital profit before tax of £101,000 (2008: £21,000 and £880,000 respectively).

Containment of costs and a small increase in the level of income generation, principally as a result of loan interest from investments, has seen the revenue profit before tax increase. The capital profit before tax arises from the increase in investment valuations in the period. This capital profit is below that achieved in the same period in the previous year which benefited from the sale of Sarian Systems Limited.

Cash and investment in gilts at 30 June 2009 totalled £4.55 million (June 2008: £6.24 million), representing 36% (June 2008: 45%) of net asset value before taking account of any interim dividend. The Board considers that this

Chairman's Statement

is sufficient to support the current portfolio and to continue its investment strategy in selective new opportunities in the short term, although the Board will be seeking to increase the Company's investment capacity through a fundraising later in the year.

Shareholder Relations

In addition to the required statutory announcements, the Board continues to run shareholder workshops where shareholders are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Fund Manager and the CEOs of one or more of the portfolio investments. In the last six months a workshop was held at the Imperial War Museum with in excess of 100 shareholders and their advisors attending. The Board remains committed to this programme.

The Board also remains committed to the objective of achieving a consistent dividend stream. This has been continued in these interim results with your Board determining that an interim dividend of 2.0 pence per share will be paid on 2 October 2009 to shareholders on the register as at 4 September 2009.

Outlook

These continue to be challenging economic times but our investments remain soundly financed. Whilst some have taken the opportunity to address their costs bases as a defensive measure others have continued to develop and prosper. This Company is well placed to continue to support these investments and take advantage of investment opportunities that may arise in the short term.

The Board remains firmly of the opinion that the upcoming period is likely to present a number of investment opportunities, both for the existing portfolio businesses and for new investments. It is with this in mind that we will be seeking to increase the investment capacity later in the year.

Richard Last
26 August 2009

Investment Portfolio

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost* £000	Proceeds Realised to Date £000	Investment Valuation at 30 June 2009 £000	Realised and Unrealised to Date £000
Current Investments							
Digital Healthcare Ltd	Jun-05	Cambridge	Healthcare	3,073	–	2,112	2,112
Silistix Ltd	Dec-03	Manchester	Software	1,215	–	1,048	1,048
DxS Ltd	Apr-04	Manchester	Healthcare	163	–	817	817
Immunobiology Ltd	Jun-03	Cambridge	Healthcare	850	–	803	803
Primal Pictures Ltd	Dec-05	London	Healthcare	961	–	679	679
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	–	587	587
Waterfall Services Ltd	Feb-07	Watford	Healthcare	250	–	341	341
Pressure Technologies plc	Jun-07	Sheffield	Industrial	300	–	330	330
Patsystems plc	Sep-07	London	Software	317	–	276	276
Oxonica plc	May-02	Oxford	Chemical	241	255	6	261
Harvey Jones Ltd	May-07	London	Manufacture	389	–	240	240
Ellfin Home Care Ltd	Dec-07	Oldham	Healthcare	296	–	208	208
Optos plc	Dec-05	Dunfermline	Healthcare	153	93	81	174
RMS Group Holdings Ltd	Jul-07	Goole	Industrial	408	13	132	145
Tissuemed Ltd	Dec-05	Leeds	Healthcare	48	–	120	120
Solcom Ltd	Dec-05	Ryde	Software	–	–	73	73
Allergy Therapeutics plc	Oct-04	Worthing	Healthcare	350	–	65	65
Brulines plc	Oct-06	Stockton-on-Tees	Software	81	–	62	62
Cambridge Cognition Ltd	May-02	Cambridge	Software	240	–	–	–
Casmir Ltd	Dec-05	Salford	Software	–	–	–	–
Patterning Technologies Ltd	Dec-05	Hemel Hempstead	Electronics	–	–	–	–
				9,610	361	7,980	8,341
Full realisations to date				7,198	10,828	–	10,828
Total realised and unrealised to date				16,808	11,189	7,980	19,169

* Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc.

Investment Portfolio

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost* £000	Proceeds Realised to Date £000	Realised Profit (Loss) £000
Realised Investments						
Sarian Systems Ltd	Dec-05	Ilkley	Telecoms	928	2,605	1,677
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	1,460
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	1,417
Vibration Technology Ltd	Mar-02	Glasgow	Industrial	1,061	2,328	1,267
Tamesis Ltd	Jul-01	London	Software	150	317	167
Voxar Ltd	Dec-05	Edinburgh	Software	–	134	134
Tektron Group Ltd	Dec-05	Manchester	Software	100	220	120
Arakis	Mar-04	Essex	Healthcare	14	108	94
Hallco 1390	Dec-06	Manchester	Software	1	77	76
Oxis Energy Ltd**	Dec-05	Abingdon	Electronics	5	–	(5)
Sosei Co Ltd	Aug-05	Toyko, Japan	Healthcare	158	94	(64)
Sirus Pharmaceuticals Ltd	Sep-01	Cambridge	Healthcare	270	14	(256)
Infinite Data Storage Ltd**	Mar-02	Dunfermline	Software	425	–	(425)
Purely Proteins Ltd	Nov-03	Cambridge	Software	438	–	(438)
Express On Biosystems Ltd**	Oct-02	Midlothian	Healthcare	450	–	(450)
Broadreach Networks Ltd**	Feb-03	London	Telecoms	550	17	(533)
Comvurgent Ltd**	Dec-05	Nottingham	Software	611	–	(611)
Hallco 1389	Dec-06	Manchester	Software	49	49	–
Focus Solutions Group plc	Dec-05	Leamington Spa	Software	7	7	–
Elam-T Ltd**	Dec-05	London	Electronics	–	–	–
LANergy Ltd**	Dec-05	Newport	Telecoms	–	–	–
Sigtronics Ltd**	Dec-05	Livingston	Electronics	–	–	–
Weston Antennas Ltd**	Dec-05	Dorchester	Telecoms	–	–	–
				7,198	10,828	3,630

* Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc.

** In receivership

Top 15 Investments



Digital Healthcare Limited

Cambridge
www.digital-healthcare.co.uk

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. It continues to develop its market share in both the UK and US.



Silistix Limited

Manchester
www.silistix.com

Silistix is a spin-out from the University of Manchester producing a self-timed silicon chip to deliver easier and faster chip design and reduced energy consumption. The company is developing its products in response to specific customer developments.



DxS Limited

Manchester
www.dxsgenotyping.com

DxS provides genetic analysis services to support clinical development and enable the delivery of pharmacodiagnosics to support future therapies. The company continues to rapidly expand its customer base.



Immunobiology Limited

Cambridge
www.immunobiology.co.uk

Immunobiology is developing high efficacy vaccines for infectious diseases including influenza, tuberculosis and meningitis. The company has expanded its range of vaccines at different stages of commercial trial and licensing.



Primal Pictures Limited

London
www.primalpictures.com

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at a range of healthcare professionals. The company continues to significantly expand its sales activities into a range of healthcare markets.

Top 15 Investments



The Art Technology Group Inc

Cambridge, USA
www.atg.com

The investment in the Art Technology Group Inc arose from an original investment in Belfast based Amacis Limited. The Amacis technology enables multi-language automated handling of text, e-mail and SMS messages.

Waterfall Services Limited (trading as Caterplus Services Ltd)

Watford
www.caterplus.co.uk

Waterfall is a contract caterer specialising in the care home sector. The company successfully completed the acquisition of Taylor Shaw in 2008, more than doubling the size of the business.



Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Pressure Technologies design, manufacture and offer testing and refurbishment services for a range of specialty high pressure, seamless steel gas cylinders for global energy and defence markets. It is the dominant supplier of these products to manufacturers of offshore floating drilling rigs, used in deepwater oil and gas exploration.



Patsystems plc

London
www.patsystems.com

The holding in Patsystems derives from the deferred consideration payable in shares on the acquisition of Tamesis. Patsystems sells trading and risk management systems to derivatives traders and is seeing good demand for its unique real-time risk management system.



Oxonica plc

Oxford
www.oxonica.com

This investment was realised in full in July 2009.

Top 15 Investments



Harvey Jones Limited

London
www.harveyjones.com

Harvey Jones is a manufacturer/retailer of kitchen furniture. It has a manufacturing facility in the UK and 13 stores mostly in London and wealthy provincial towns. The company is continuing with its strategy of increasing its number of stores.

Elffin Home Care Limited

Oldham

Elffin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The Company was established as a vehicle to acquire a number of home care businesses forming a North West Group over a 5 year period. To date two acquisitions have been completed.



Optos plc

Dunfermline
www.optos.com

Optos has developed scanning laser ophthalmoscope technology enabling optometrists to produce a high resolution scan of 80% of the retina in only a quarter of a second.



RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

RMS Group is a provider of stevedoring and logistics services and operates from five sites on the Humber Estuary.



Tissuemed Limited

Leeds
www.tissuemed.com

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients.

Balance Sheet

As at 30 June 2009

	Notes	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 (restated) £000	Audited year ended 31 December 2008 £000
Assets				
Non-current assets				
Investments		7,980	7,378	4,864
Fixed income government securities		3,905	5,867	7,488
Financial assets at fair value through profit or loss		11,885	13,245	12,352
Current assets				
Trade and other receivables		126	253	388
Cash and cash equivalents		646	368	109
		772	621	497
Liabilities				
Current liabilities				
Trade and other payables		(57)	(64)	(55)
Net current assets		715	557	442
Net assets		12,600	13,802	12,794
Shareholders' equity				
Share capital		1,664	1,664	1,664
Share premium		69	69	69
Capital redemption reserve		88	88	88
Merger reserve		5,525	5,525	5,525
Other reserve		2	2	2
Realised capital reserve		3,045	4,173	3,497
Unrealised capital reserve		(2,945)	(2,746)	(3,169)
Special reserve		4,786	4,786	4,786
Revenue reserve		366	241	332
Total Shareholders' equity		12,600	13,802	12,794
Net asset value per Ordinary share	6	75.7p	82.9p	76.9p

The Balance Sheet for the six months ended 30 June 2008 has been restated following the adoption of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 to show additional reserves, and the reclassification of Government Securities as described in note 1.

Signed on behalf of the Board

Richard Last
Chairman
26 August 2009

Unaudited Statement of Changes in Equity

For the 6 months ended 30 June 2009

	Share capital £000	Share premium account £000	Merger reserve £000	*Other reserves £000	Realised capital reserve £000	Unrealised capital reserve £000	Special reserve £000	Revenue reserve £000	Total equity £000
At 31 December 2007	1,664	69	5,525	90	2,224	(1,539)	4,786	332	13,151
Revenue return for the period	-	-	-	-	-	-	-	18	18
Realisation of negative goodwill	-	-	-	-	448	(448)	-	-	-
Capital expenses	-	-	-	-	(142)	-	-	-	(142)
Unrealised loss on investments held at fair value	-	-	-	-	-	(341)	-	-	(341)
Realisation of prior year unrealised gains	-	-	-	-	418	(418)	-	-	-
Realisation of investments in the period	-	-	-	-	1,366	-	-	-	1,366
Dividends	-	-	-	-	(141)	-	-	(109)	(250)
At 30 June 2008	1,664	69	5,525	90	4,173	(2,746)	4,786	241	13,802
Revenue return for the period	-	-	-	-	-	-	-	91	91
Capital expenses	-	-	-	-	(10)	-	-	-	(10)
Realisation of negative goodwill	-	-	-	-	-	-	-	-	-
Unrealised loss on investments held at fair value	-	-	-	-	-	(427)	-	-	(427)
Realisation of prior year unrealised losses	-	-	-	-	(4)	4	-	-	-
Realisation of investments in the period	-	-	-	-	3	-	-	-	3
Dividends	-	-	-	-	(665)	-	-	-	(665)
At 31 December 2008	1,664	69	5,525	90	3,497	(3,169)	4,786	332	12,794

Unaudited Statement of Changes in Equity

For the 6 months ended 30 June 2009 (continued)

	Share capital £000	Share premium account £000	Merger reserve £000	*Other reserves £000	Realised capital reserve £000	Unrealised capital reserve £000	Special reserve £000	Revenue reserve £000	Total equity £000
At 31 December 2008	1,664	69	5,525	90	3,497	(3,169)	4,786	332	12,794
Revenue return for the period	–	–	–	–	–	–	–	34	34
Capital expenses	–	–	–	–	(116)	–	–	–	(116)
Realisation of negative goodwill	–	–	–	–	–	–	–	–	–
Unrealised gain on investments held at fair value	–	–	–	–	–	234	–	–	234
Realisation of prior year unrealised gains	–	–	–	–	10	(10)	–	–	–
Realisation of investments in the period	–	–	–	–	(13)	–	–	–	(13)
Dividends	–	–	–	–	(333)	–	–	–	(333)
At 30 June 2009	1,664	69	5,525	90	3,045	(2,945)	4,786	366	12,600

The Unaudited Statement of Changes in Equity for the six months ended 30 June 2008 has been restated following the adoption of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 to show additional reserves.

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

Statement of Cash Flows

For the 6 months ended 30 June 2009

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008 (restated)	Audited year ended 31 December 2008
	£000	£000	£000
Net cash inflow (outflow) from operating activities	181	(239)	(305)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	(209)	(3,166)	(4,115)
Proceeds from sale of financial assets at fair value through profit or loss	898	3,796	5,217
Net cash from investing activities	689	630	1,102
Cash flows used in financing activities			
Dividends paid	(333)	(250)	(915)
Net cash used in financing activities	(333)	(250)	(915)
Net increase (decrease) in cash and cash equivalents	537	141	(118)
Cash and cash equivalents at the beginning of the period	109	227	227
Cash and cash equivalents at the end of the period	646	368	109

Notes to the Financial Statements

For the 6 months ended 30 June 2009

1. These half year statements have been approved by the directors whose names appear at note 7, each of whom has confirmed that to the best of his knowledge the Interim Management Report includes a fair review of the information required by rules 4.2.7 and 4.2.8 of the Disclosure Rules and the Transparency Rules.

The half year statements 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 2008 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2008. Those accounts were reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

The half year statements comply with IAS 34 'Interim financial reporting' and the Disclosure and Transparency Rules of the Financial Services Authority. 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 2008, except as noted below.

The financial statements for the year ended 31 December 2008 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 ("SORP") is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

The following new standards and amendments to standards are mandatory for the first time for the financial year commencing 1 January 2009. Where relevant to the Company the half year statements have been prepared under the revised disclosure requirements.

IAS 1 (revised) "Presentation of Financial Statements". The Company has elected to present a single performance statement: the Statement of Comprehensive Income.

IFRS 8 "Operating Segments". The adoption of this standard has had no impact on the segmental information reported by the Company.

Other standards and interpretations which have been issued but are not currently relevant for the Company are IAS 23 (Revised) and IFRICs 13, 15 and 16.

Notes to the Financial Statements

For the 6 months ended 30 June 2009

Investments in quoted Government Securities were reclassified from cash equivalents to financial assets at fair value through profit or loss in the accounts for the year ended 31 December 2008. As a consequence the balance sheet for the six months ended 30 June 2008 has been restated.

There has been no change to the principal risks and uncertainties facing the Company since the publication of the financial statements for the year ended 31 December 2008. In summary, the principal risks are:

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

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2008 on page 15, a copy of which can be found at www.yfmgroup.co.uk.

2. Income

	Unaudited 6 months ended 30 June 2009 £000	Unaudited 6 months ended 30 June 2008 £000
Income from investments		
– Dividends from unquoted companies	7	3
– Dividends from AIM quoted companies	12	–
	19	3
– Interest on loans to unquoted companies	59	53
– Fixed interest Government securities	112	117
Income from investments held at fair value through profit or loss	190	173
Interest on bank deposits	2	7
	192	180

Notes to the Financial Statements

For the 6 months ended 30 June 2008

3. Taxation

	Unaudited 6 months ending 30 June 2009			Unaudited 6 months ending 30 June 2008		
	Revenue £000	Capital £000	Total £000	Revenue (restated) £000	Capital (restated) £000	Total £000
Corporation tax payable at 21% (2008: 21%)	4	(4)	–	3	(3)	–
Profit on ordinary activities before taxation	38	101	139	21	880	901
Profit on ordinary activities multiplied by standard small company rate of corporation tax in UK of 21% (2008: 21%)	8	21	29	4	185	189
Effect of:						
UK dividends received	(4)	–	(4)	(1)	–	(1)
Non taxable profits on investments	–	(46)	(46)	–	(215)	(215)
Excess management expenses	–	21	21	–	27	27
Tax on profit on ordinary activities	4	(4)	–	3	(3)	–

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

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

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

Notes to the Financial Statements

For the 6 months ended 30 June 2009

4. Dividends

Amounts recognised as distributions to equity holders in the period:

	Unaudited 6 months ended 30 June 2009		Unaudited 6 months ended 30 June 2008			Audited Year ended 31 December 2008		
	Capital	Total	Revenue (restated)	Capital (restated)	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Final paid – 1.5p per share paid 16 May 2008	–	–	109	141	250	109	141	250
Interim paid – 2.0p per share paid 26 September 2008	–	–	–	–	–	–	332	332
Special Interim dividend paid – 2.0p per share paid 26 September 2008	–	–	–	–	–	–	333	333
Final paid – 2.0p per share paid 19 May 2009	333	333	–	–	–	–	–	–
	333	333	109	141	250	109	806	915

An interim dividend of 2.0 pence per Ordinary Share, amounting to £333,000, is proposed. The dividend has not been recognised in these half year financial statements as the obligation did not exist at the balance sheet date.

5. Basic and diluted earnings per Ordinary share

The basic and diluted earnings per Ordinary share is based on the profit from ordinary activities after tax of £139,000 (30 June 2008: £901,000) and 16,641,000 (30 June 2008: 16,641,000) shares being the weighted average number of shares in issue during the year.

The basic and diluted revenue return per Ordinary share is based on the profit from ordinary activities after tax of £34,000 (30 June 2008: £18,000) and 16,641,000 (30 June 2008: 16,641,000) shares being the weighted average number of shares in issue during the year.

The basic and diluted capital return per Ordinary share is based on the profit from ordinary activities after tax of £105,000 (30 June 2008: £883,000) and 16,641,000 (30 June 2008: 16,641,000) shares being the weighted average number of shares in issue during the year.

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

Notes to the Financial Statements

For the 6 months ended 30 June 2009

6. Net asset value per Ordinary share

The basic and diluted net asset value per Ordinary share is calculated on attributable assets of £12,600,000 (30 June 2008 and 31 December 2008: £13,802,000 and £12,794,000 respectively) and 16,641,000 (30 June 2008 and 31 December 2008: 16,641,000 shares) shares in issue at the period end.

The Company has no securities that would have a dilutive effect and hence basic and diluted net asset value per Ordinary share are the same.

7. The directors of the Company are: Mr R Last, Mr PS Cammerman and Mr RM Pettigrew.

8. Copies of the interim report can be obtained from the Company's registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ or from the Fund Manager's website: www.yfmgroup.co.uk.



BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT 2 plc

Saint Martins House
210 - 212 Chapeltown Road
Leeds LS7 4HZ