

British Smaller Companies VCT2 plc

Interim Report

for the 6 months ended 30 June 2014



Financial Highlights

104.7p

Total Return

The Company's total return has increased by 0.1 pence per ordinary share from 104.6 pence per ordinary share as at 31 December 2013. This includes cumulative dividends paid of 41.5 pence per ordinary share.

0.2%

Net Asset Value Increase

Your Company continues to make progress with an overall increase in net asset value ("NAV") of 0.2 per cent prior to the payment of dividends totalling 2.5 pence per ordinary share, with the NAV standing at 63.2 pence per ordinary share at 30 June 2014.

41.5p

Cumulative Dividends Paid

A final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2013 (year ended 31 December 2012: 2.5 pence per ordinary share) was paid on 30 June 2014 taking cumulative dividends paid since the Company's inception to 41.5 pence per ordinary share.

2.0p

Interim Dividend Proposed

The Board has proposed an interim dividend of 2.0 pence in respect of the period to 30 June 2014 making a total of 4.5 pence for the last 12 months.

Contents

Financial Overview

Financial Highlights	2
Financial Summary	3
Financial Calendar	3

Strategic Report

Chairman's Statement	4
Investment Review	6
Investment Portfolio	8
Our Portfolio at a Glance	10
Principal Risks and Uncertainties	11

Directors' Responsibilities Statement

11

Financial Statements

Unaudited Statement of Comprehensive Income	12
Unaudited Balance Sheet	13
Unaudited Statement of Changes in Equity	14
Unaudited Statement of Cash Flows	16
Notes to the Unaudited Financial Statements	17

Advisers to the Company

25

Investor Workshop

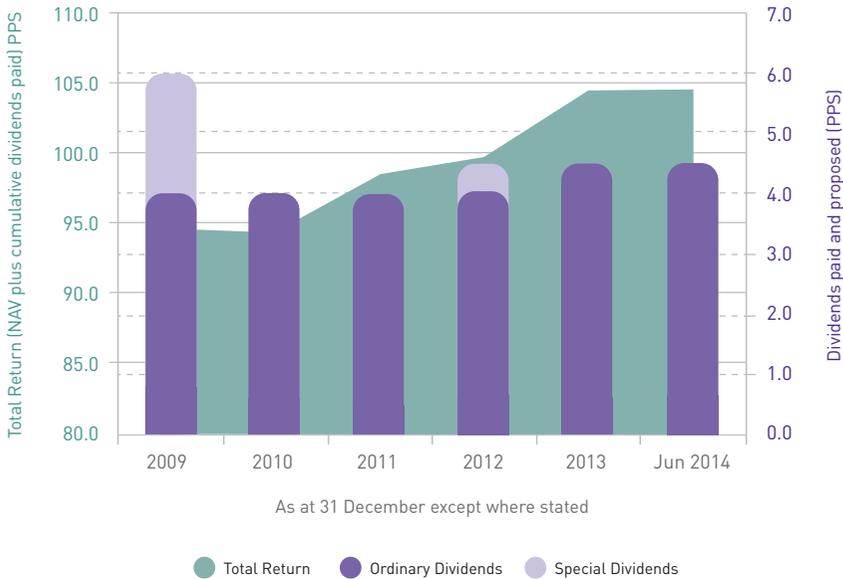


Financial Summary

For the six months ended 30 June 2014

The chart below shows how the total return of your Company, calculated by reference to the net asset value per ordinary share plus cumulative dividends paid per ordinary share, has developed over the last five years.

Total Return and Dividends Paid and Proposed



Financial Calendar

Results Announced	15 August 2014
Ex-Dividend Date	3 September 2014
Record Date	5 September 2014
DRIS Election Date	22 September 2014
Dividend Paid	7 October 2014

Chairman's Statement

Investment rates continue to climb as the improved economic climate increases confidence amongst business owners. Your Company has made seven new unquoted investments in the last year, including four in the six months to 30 June 2014.



I am pleased to report a strong six months of investment activity, with £5.5 million invested in the period and a total of £10.0 million in the 12 months to 30 June 2014. Your Company continues to focus on investing in established businesses with strong potential for growth located in the UK regions. Of the seven investments completed, three were in the Midlands; two were in the South East and one each in Wales and Scotland. As at 30 June 2014 your Board had approved a further £2.0 million of investment and since the period end has approved another £2.1 million. These investments, totalling £4.1 million, are expected to complete in the near future.

I am delighted to report the success of our recent share offers which closed on 29 May 2014 and raised new funds of £10.2 million, which is approximately the same amount the Company invested in the last twelve months. Demand for investment continues to increase and the pipeline of new investments is extremely encouraging.

Financial Results and Dividends

In the six months to 30 June 2014 the Company's total return increased by 0.1 pence per ordinary share from 104.6 pence per ordinary share at 31 December 2013.

Significant progress was made by many of the portfolio companies however, due to timing delays in the closure of new sales, provisions totalling £0.74 million were made against two of our investments. These were offset by gains elsewhere across the portfolio and both investments continue to be held above cost.

During the period a final dividend of 2.5 pence per ordinary share was paid, bringing cumulative dividends paid to date to 41.5 pence per ordinary share. For the period to 30 June 2014 the Board has proposed an interim dividend of 2.0 pence per ordinary share, making a total of 4.5 pence per ordinary share over the last year. It is intended that of the total interim dividend 0.27 pence per ordinary share will be paid from revenue reserves and 1.73 pence per ordinary share from capital reserves. The interim dividend will be paid on 7 October 2014 to shareholders on the register at 5 September 2014.

Shareholder Relations

Following the success of the 19th shareholder workshop in February 2014, the Company is pleased to announce that its next workshop will be held at Freemasons' Hall, London on 4 February 2015 (see inside back page for further information). Details will be circulated nearer the time.

Regulatory Changes

The EU Alternative Investment Fund Managers Directive (AIFMD) became part of UK law in July 2013, with a 12 month transitional period to July 2014. The Directive regulates the management of alternative investment funds, including venture capital funds such as VCTs. The Board is pleased to announce that the Financial Conduct Authority approved the Company's application to become a Small Registered UK Alternative Investment Fund Manager on 21 July 2014. YFM Private Equity Limited continues to provide investment, advisory and administrative services to the Company.

As expected, the 2014 Finance Bill, which received Royal Assent on 17 July 2014, included measures to prevent "enhanced" share buy-backs, where a VCT offers to buy back shares from investors on condition that the proceeds are applied in subscribing for a fresh issue of shares. Income tax relief for subscriptions of shares in a VCT is also restricted where an investor disposes of shares in the same VCT within six months of the subscription. Furthermore, where new VCT shares are allotted on or after 6 April 2014, VCTs will be prevented for a specified period from paying dividends to shareholders out of share capital or distributable reserves created by cancelling the share premium account arising on the allotment of such shares. The Company's balance sheet already has ample distributable reserves amounting to £13.43 million and we do not expect the new rules to have any impact on future dividend streams.

Outlook

Good progress continues to be made across the portfolio to position businesses to grow and realise shareholder value. At the same time our Company continues to see strong demand for investment in the UK regions, with £10.0 million deployed in the last twelve months which has significantly increased the diversity of the portfolio.

The Company continues to see an increase in new investment opportunities. In order for the Company to continue to take advantage of these new opportunities the Board will be seeking to raise further funds, details of which will follow in due course.



Richard Last
Chairman

15 August 2014

Investment Review

The Company currently has an increasingly diversified portfolio which at 30 June 2014 had a value of £20.66 million consisting of £18.26 million (88.4 per cent) unquoted investments and £2.40 million (11.6 per cent) quoted investments. The high level of current investment rates has significantly increased the portfolio diversity with the largest single investment representing just 5.2 per cent of the net asset value.

Over the six months to 30 June 2014 the portfolio saw a small underlying value gain of £0.01 million and good progress has been made across the portfolio to position businesses to grow and realise shareholder value. This has been displayed in a mixture of strong profit growth from some businesses as well as some strategic and organisational restructuring of others to maximise profits in the year ahead. The most significant movements in valuations in the period were:

- Waterfall Services Limited (increase of £0.30 million) saw strong profit growth from new contracts last year and expects to also benefit from the imminent introduction of free primary school meals.
- Pressure Technologies plc (increase of £0.26 million) reported significantly improved profits from its core pressure container production and successful diversification into the biogas sector.

- Sirigen Limited (increase of £0.26 million) delivered many key milestones to achieve additional deferred consideration following its trade sale in 2012.
- DisplayPlan Holdings Limited (increase of £0.15 million) saw continued strong cash generation.
- Seven Technologies Holdings Limited (reduction of £0.47 million) suffered public sector budgetary constraints in its core US and UK markets last year which are now showing signs of easing.
- Deep-Secure Ltd (decrease of £0.27 million) experienced some public sector contract slippage and a delay in the launch of a product through a significant new strategic partnership.

New Investments

In the six months to 30 June 2014 the Company has completed four new investments totalling £5.19 million, as set out in the table opposite.

The Company has made follow-on investments into AIM listed EKF Diagnostics plc and AB Dynamics plc totalling £0.32 million.

As at 30 June 2014 the Company had approved £2.0 million of investment by way of follow-on and new investment. Since that date it has approved another two new investments of £2.1 million in aggregate.

	Name of Company	Business	Date of investment	Amount invested (£m)
	Mangar Health Limited	Healthcare Equipment	January 2014	1.64
	The management buyout of Mangar Health, a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets. Headquartered in Presteigne, Wales Mangar distributes its products to care providers, local authorities, ambulance services and care homes, and has a growing international presence.			
	Intelligent Office UK Limited	Support Services	May 2014	1.96
	The management buyout of Intelligent Office, a leading provider of business process outsourcing solutions to the UK legal sector. Its Managed Services division works within firms' own premises to help them transform and manage key administrative functions of print and mail, reception, document production and secretarial services. Its Transcription Services division provides document production services from a secure shared services centre.			
	Macro Art Holdings Limited	Digital Printer	June 2014	0.84
	The management buyout and growth capital funding for Macro Art, a specialist wide-format digital printer which has printed building wraps for Selfridges and Harrods London stores and holds the Guinness World Record for the largest printed movie poster. In recent years the business has invested in specialist UV and dye sublimation print technology and expanded into the profitable exhibitions and high-end retail sectors.			
	Intamac Systems Limited	IT & Software	June 2014	0.75
	The provision of growth capital funding to Intamac Systems which develops technology to connect physical products via the internet so they can be monitored and controlled using smart mobile phones and computers. The cloud-based software platform is used by several blue chip companies including Scottish Power, Securitas, TDC and Belgacom. The strategy is to partner with established hardware suppliers and embed software into their next generation products to become a key enabler of the Internet of Things. Applications range from alarms, cameras, heating controls, safety equipment, healthcare monitoring and white goods.			

Realisation of Investments

During the six months to 30 June 2014 the Company received proceeds from disposals of investments of £1.11 million. This resulted in a gain on disposal of investments of £0.35 million and an uplift of £0.60 million compared to the original cost of the investments. Of this £0.49 million of proceeds were realised from the sale of shares in the quoted portfolio, namely Iomart plc, Optos plc,

Pressure Technologies plc and Vianet Group plc, representing a £0.27 million uplift on original cost. The remainder was due to the repayment of loans generating proceeds of £0.36 million with premiums on redemption totalling £0.07 million.

£1.37 million was received in June 2014 from the sale of the Company's remaining gilt portfolio at the original investment cost.

Investment Portfolio

As at 30 June 2014

The top 10 unquoted investments have a combined value of £13.40 million, 64 per cent of the total portfolio.

Manufacturing and Industrial Services



Retail and Brands



Software, IT and Telecommunications



Healthcare



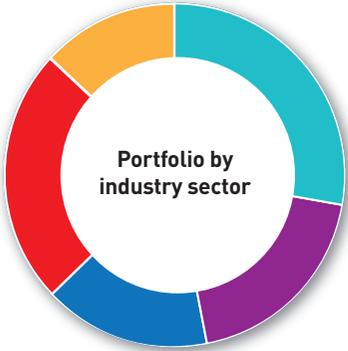
Business Services



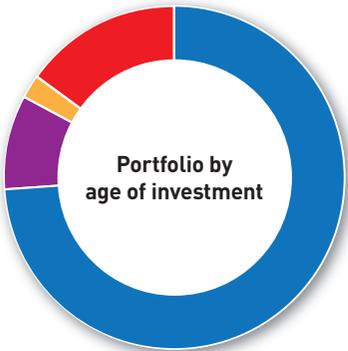
	Name of Company	Date of Initial Investment	Current Cost £000	Realised Proceeds to Date £000	Investment Valuation at 30 June 2014 £000	Valuation plus proceeds to date £000
	DisplayPlan Holdings Limited DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. Very strong profits have been achieved since investment to support the management buyout but a key focus is to also increase the diversity of the customer base to reduce volatility. <i>Baldock, Herts – www.displayplan.com</i>	January 12	525	228	2,062	2,290
	Intelligent Office UK Limited In May 2014 the Company supported the management buyout of Intelligent Office, a leading provider of process outsourcing solutions to UK legal practices. The Managed Services division works within firms' own premises to help them transform and manage key administrative functions and secretarial services. <i>Alloa, Scotland – www.intelligentofficeuk.com</i>	May 14	1,956	–	1,956	1,956
	Gill Marine Holdings Limited Gill Marine is a manufacturer of technical sailing and clothing accessories and official sponsor for the internationally renowned Aberdeen Asset Management Cowes Week Regatta. Exports account for over 70% of turnover. The strategy is to develop the brand further and increase market share in existing and new markets. <i>Nottingham – www.gillmarine.com</i>	September 13	1,870	–	1,870	1,870
	Mangar Health Limited Mangar is a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets. It distributes its products to care providers, local authorities, ambulance services and care homes. Products facilitate extended independence for elderly users. <i>Powys – www.mangar.co.uk</i>	January 14	1,640	–	1,640	1,640
	Seven Technologies Holdings Limited Seven Technologies is an engineering business specialising in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to increase the company's international presence and grow average contract sizes. <i>Belfast – www.seventechnologies.co.uk</i>	April 12	1,238	762	1,238	2,000
	GTK (UK) Limited GTK is a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. With a small sourcing team in Taiwan, it provides design, procurement and manufacturing services of essential but non-core electronic components for customers in sectors such as precision instrumentation, defence/security and contract equipment manufacturing. <i>Basingstoke – www.gtk.co.uk</i>	October 13	1,084	66	1,084	1,150

	Name of Company	Date of Initial Investment	Current Cost £000	Realised Proceeds to Date £000	Investment Valuation at 30 June 2014 £000	Valuation plus proceeds to date £000
	Immunobiology Limited	June 03	1,932	-	987	987
	Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including tuberculosis, meningitis and bacterial pneumonia. It is co-developing a TB vaccine in China and, separately, is seeking regulatory clearance to commence human trials for its pneumonia vaccine. <i>Cambridge – www.immbio.com</i>					
	Leengate Holdings Limited	December 13	934	-	934	934
	Leengate Valves is a wholesaler, stockist and distributor, supplying one of the largest ranges of industrial valves in the UK to leading re-sellers in the gas, water and industrial sectors. It also supplies engineering actuation and automation packages, offering a next day service and high quality technical advice. <i>Derbyshire – www.leengatevalves.co.uk</i>					
	Macro Art Holdings Limited	June 14	840	-	840	840
	Macro Art is a specialist wide-format digital printer, whose clients include Selfridges and Harrods. Significant recent investment in new technology has positioned the business well to expand its higher margin activities supporting exhibition displays and retail sector promotions. <i>Cambridgeshire – www.macroart.co.uk</i>					
	Waterfall Services Limited	February 07	26	458	792	1,250
	Waterfall is a contract caterer specialising in the care home and educational sector, which has expanded its services and geographical coverage in recent years. As a key supplier of primary school meals in Sheffield and Durham it is well placed to benefit from the launch of free school meals in September 2014. <i>Warrington – www.waterfall-services.co.uk</i>					
Top 10 Unquoted Investments			12,045	1,514	13,403	14,917
Remaining Unquoted Portfolio						
Telecoms	Callstream Group Limited	September 10	415	131	771	902
Internet	Intamac Systems Limited	June 14	750	-	750	750
Software	Deep-Secure Ltd	December 09	500	-	644	644
Retail	Bagel Nash Group Limited	July 11	771	53	613	666
Software	Insider Technologies (Holdings) Limited	August 12	780	-	587	587
Retail	Harvey Jones Holdings Limited	May 07	389	-	451	451
Industrial	RMS Group Holdings Limited	July 07	70	349	398	747
Software	Selima Limited	March 12	300	-	300	300
Software	PowerOasis Limited	November 11	567	-	284	284
	Other investments < £0.1 million		2,104	-	60	60
			18,691	2,047	18,261	20,308
Quoted Portfolio						
Manufacturing	Pressure Technologies plc	June 07	121	493	583	1,076
Medical	EKF Diagnostics Holdings plc	July 11	437	-	407	407
Manufacturing	AB Dynamics plc	May 13	253	-	376	376
Manufacturing	Hargreaves Services plc	August 12	325	-	314	314
Internet	Iomart Group plc	May 11	119	209	247	456
Software	Brady plc	December 10	134	163	171	334
Bus.Services	Busnet Group plc	October 06	181	45	132	177
Healthcare	Cambridge Cognition Holdings plc	May 02	240	-	102	102
Healthcare	Allergy Therapeutics plc	October 04	350	-	70	70
			2,160	910	2,402	3,312
			20,851	2,957	20,663	23,620
Full disposals to date			13,502	20,679	-	20,679
Total			34,353	23,636	20,663	44,299

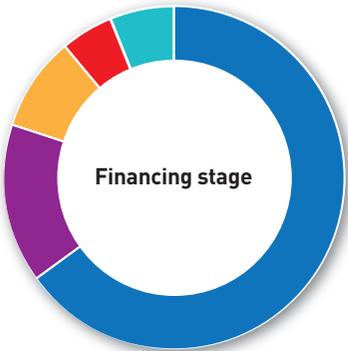
Our Portfolio at a Glance



- Business Services – 28%
- Manufacturing and Industrial – 19%
- Healthcare – 16%
- Software, IT and Telecommunications – 24%
- Retail and Brands – 13%



- Less than 3 years – 74%
- Between 3 and 5 years – 9%
- Between 5 and 7 years – 2%
- Greater than 7 years – 15%



- MBO-MBI – 65%
- Development – 15%
- Early Expansion – 9%
- IPO – 5%
- AIM – 6%

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 2013. The Board acknowledges that there is regulatory risk and continues to manage the Company's affairs in such a manner as to comply with section 274 income Tax Act 2007.

In summary, the principal risks are:

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

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2013 on pages 29 and 30, a copy of which is available at www.yfmep.com.

Directors' Responsibilities Statement

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

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



Richard Last
Chairman

15 August 2014

Unaudited Statement of Comprehensive Income

For the six months ended 30 June 2014

	Notes	Unaudited 6 months ending 30 June 2014			Unaudited 6 months ending 30 June 2013		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments		-	347	347	-	9	9
(Losses) gains on investments held at fair value		-	(336)	(336)	-	1,097	1,097
Income	2	543	-	543	365	-	365
Administrative expenses:							
Investment adviser's fee		(75)	(225)	(300)	(68)	(204)	(272)
Other expenses		(196)	-	(196)	(168)	-	(168)
		(271)	(225)	(496)	(236)	(204)	(440)
Profit before taxation		272	(214)	58	129	902	1,031
Taxation	3	(1)	1	-	-	-	-
Profit for the period		271	(213)	58	129	902	1,031
Total comprehensive income (expense) for the period attributable to equity shareholders		271	(213)	58	129	902	1,031
Basic and diluted earnings (loss) per ordinary share	5	0.51p	(0.40p)	0.11p	0.30p	2.06p	2.36p

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

Unaudited Balance Sheet

As at 30 June 2014

	Notes	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	Audited 31 December 2013 £000
Assets				
Non-current assets				
Investments		20,663	12,377	16,255
Fixed income government securities		–	901	890
Financial assets at fair value through profit or loss	6	20,663	13,278	17,145
Trade and other receivables		297	108	132
		20,960	13,386	17,277
Current assets				
Trade and other receivables		572	114	123
Cash on fixed term deposits		4,500	3,500	4,500
Cash and cash equivalents		13,415	13,393	8,680
		18,487	17,007	13,303
Liabilities				
Current liabilities				
Trade and other payables		(117)	(135)	(122)
Net current assets		18,370	16,872	13,181
Net assets		39,330	30,258	30,458
Shareholders' equity				
Share capital		6,411	4,800	4,822
Share premium account		13,736	4,835	4,926
Capital redemption reserve		88	88	88
Merger reserve		5,525	5,525	5,525
Other reserve		2	2	2
Capital reserve		13,377	17,028	14,568
Investment holding (losses) gains – net		(158)	(2,149)	448
Revenue reserve		349	129	79
Total shareholders' equity		39,330	30,258	30,458
Net asset value per ordinary share	7	63.2p	65.3p	65.6p

Signed on behalf of the Board



Richard Last
Chairman

15 August 2014

Unaudited Statement of Changes in Equity

For the six months ended 30 June 2014

	Share capital	Share premium	Other reserves*	Merger reserve	Capital reserve	Investment holding gains (losses) reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2012	4,271	14,806	90	5,525	7,225	(4,919)	154	27,152
<i>Revenue return for the period</i>	-	-	-	-	-	-	129	129
<i>Capital expenses</i>	-	-	-	-	(204)	-	-	(204)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	1,097	-	1,097
<i>Realisation of investments in the period</i>	-	-	-	-	9	-	-	9
Total comprehensive income for the period	-	-	-	-	(195)	1,097	129	1,031
<i>Issue of share capital</i>	504	2,964	-	-	-	-	-	3,468
<i>Issue of shares – DRIS</i>	25	130	-	-	-	-	-	155
<i>Issue costs</i>	-	(160)	-	-	-	-	-	(160)
<i>Purchase of own shares</i>	-	-	-	-	(224)	-	-	(224)
<i>Dividends</i>	-	-	-	-	(1,001)	-	(154)	(1,155)
<i>Cancellation of Share Premium</i>	-	(12,905)	-	-	12,896	-	-	(9)
Total transactions with shareholders	529	(9,971)	-	-	11,671	-	(154)	2,075
Realisation of prior year investment holding losses	-	-	-	-	(1,673)	1,673	-	-
At 30 June 2013	4,800	4,835	90	5,525	17,028	(2,149)	129	30,258
<i>Revenue return for the period</i>	-	-	-	-	-	-	79	79
<i>Capital expenses</i>	-	-	-	-	(217)	-	-	(217)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	651	-	651
<i>Gain on disposal of investments in the period</i>	-	-	-	-	587	-	-	587
Total comprehensive income for the period	-	-	-	-	370	651	79	1,100
<i>Issue of shares – DRIS</i>	22	109	-	-	-	-	-	131
<i>Issue costs</i>	-	(18)	-	-	-	-	-	(18)
<i>Purchase of own shares</i>	-	-	-	-	(85)	-	-	(85)
<i>Dividends</i>	-	-	-	-	(799)	-	(129)	(928)
Total transactions with shareholders	22	91	-	-	(884)	-	(129)	(900)
Realisation of prior year investment holding gains	-	-	-	-	(2,123)	2,123	-	-
Realisation of negative goodwill	-	-	-	-	177	(177)	-	-
At 31 December 2013	4,822	4,926	90	5,525	14,568	448	79	30,458

	Share capital	Share premium	Other reserves*	Merger reserve	Capital reserve	Investment holding gains (losses) reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 31 December 2013	4,822	4,926	90	5,525	14,568	448	79	30,458
<i>Revenue profit for the period</i>	-	-	-	-	-	-	271	271
<i>Capital expenses</i>	-	-	-	-	(224)	-	-	(224)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	-	(336)	-	(336)
<i>Gain on disposal of investments in the period</i>	-	-	-	-	347	-	-	347
Total comprehensive income for the period	-	-	-	-	123	(336)	271	58
<i>Issue of ordinary share capital</i>	1,551	9,200	-	-	-	-	-	10,751
<i>Issue of shares – DRIS</i>	38	191	-	-	-	-	-	229
<i>Issue costs of ordinary shares</i>	-	(581)	-	-	-	-	-	(581)
<i>Purchase of own shares</i>	-	-	-	-	(36)	-	-	(36)
<i>Dividends</i>	-	-	-	-	(1,548)	-	(1)	(1,549)
Total transactions with shareholders	1,589	8,810	-	-	(1,584)	-	(1)	8,814
<i>Realisation of prior year investment holding losses</i>	-	-	-	-	257	(257)	-	-
<i>Realisation of negative goodwill</i>	-	-	-	-	13	(13)	-	-
At 30 June 2014	6,411	13,736	90	5,525	13,377	(158)	349	39,330

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

The capital reserve includes £115,000 (2013: £nil) of deferred proceeds receivable in 2016. The revenue reserve includes £182,000 (2013: £nil) of interest receivable in 2018 and 2019. These amounts should be excluded in the calculation of the Company's distributable reserves at 30 June 2014.

Unaudited Statement of Cash Flows

For the six months ended 30 June 2014

	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000	Audited year ended 31 December 2013 £000
Net cash (outflow) inflow from operating activities	(262)	90	(79)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	(5,978)	(954)	(5,499)
Proceeds from sale of financial assets at fair value through profit or loss	2,114	1,062	2,926
Cash placed on fixed term deposit	-	-	(4,500)
Cash received back from fixed term deposit	-	3,548	7,048
Deferred consideration	-	90	125
Net cash (outflow) inflow from investing activities	(3,864)	3,746	100
Cash flows from financing activities			
Issue of ordinary shares	10,509	3,412	3,412
Cost of ordinary shares	(328)	(106)	(122)
Purchase of own shares	-	(224)	(309)
Dividends paid	(1,320)	(1,000)	(1,797)
Share premium cancellation costs	-	(9)	(9)
Net cash inflow from financing activities	8,861	2,073	1,175
Net increase in cash and cash equivalents	4,735	5,909	1,196
Cash and cash equivalents at the beginning of the period	8,680	7,484	7,484
Cash and cash equivalents at the end of the period	13,415	13,393	8,680

Notes to the Unaudited Financial Statements

1. General information, basis of preparation and principal accounting policies

These half year statements have been approved by the directors whose names appear at note 9, each of whom has confirmed that to the best of his knowledge:

- The Interim Management Report includes a fair review of the information required by rules 4.2.7 and 4.2.8 of the Disclosure Rules and the Transparency Rules.
- The half year statements have been prepared in accordance with IAS 34 'Interim financial reporting' and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The half year statements are unaudited and have not been reviewed by the auditors pursuant to the Auditing Practices Board (APB) guidance on Review of Interim Financial Information. They do not constitute full financial statements as defined in section 435 of the Companies Act 2006. The comparative figures for the year ended 31 December 2013 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2013. 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 2013.

The financial statements for the year ended 31 December 2013 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 ("SORP") is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include amendments to IFRS 9, IFRS 10, IFRS 11 and IFRS 12, and amendments to IAS 24, IAS 27, IAS 28, IAS 32 and IAS 36. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the financial statements.

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 2014 the Company held cash balances and fixed term deposits with a combined value of £17,915,000. Cash flow projections show the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of share buy-backs and the dividend policy. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing these half year statements.

2. Income

	Unaudited 6 months ended 30 June 2014 £000	Unaudited 6 months ended 30 June 2013 £000
Income from investments		
– Dividends from unquoted companies	24	28
– Dividends from AIM quoted companies	19	22
	43	50
– Interest on loans to unquoted companies	421	187
– Fixed interest Government securities	7	10
Income from investments held at fair value through profit or loss	471	247
Interest on bank deposits	72	118
	543	365

3. Taxation

	Unaudited 6 months ended 30 June 2014			Unaudited 6 months ended 30 June 2013		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	272	(214)	58	129	902	1,031
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2013: 20%)	54	(43)	11	26	180	206
Effect of:						
UK dividends received	(8)	–	(8)	(10)	–	(10)
Non taxable profits on investments	–	(2)	(2)	–	(221)	(221)
Excess management expenses	(45)	44	(1)	(16)	41	25
Tax charge (credit)	1	(1)	–	–	–	–

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 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 2014			Unaudited 6 months ended 30 June 2013			Audited year ended 31 December 2013		
	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 2013 of 2.5p (2012 year end 2.5p) per ordinary share	1	1,548	1,549	154	1,001	1,155	154	1,001	1,155
Interim dividend for the year ended 31 December 2013 of 2.0p	-	-	-	-	-	-	129	799	928
	1	1,548	1,549	154	1,001	1,155	283	1,800	2,083

An interim dividend of 2.0 pence per ordinary share, amounting to £1,245,000 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 after tax attributable to equity shareholders of £58,000 (30 June 2013: profit of £1,031,000) and 53,185,770 (30 June 2013: 43,683,333) ordinary shares being the weighted average number of ordinary shares in issue during the period.

The basic and diluted revenue return per ordinary share is based on the revenue profit attributable to equity shareholders of £271,000 (30 June 2013: £129,000) and 53,185,770 (30 June 2013: 43,683,333) ordinary shares being the weighted average number of ordinary shares in issue during the period.

The basic and diluted capital loss per ordinary share is based on the capital loss attributable to equity shareholders of £213,000 (30 June 2013: capital return based on a profit of £902,000) and 53,185,770 (30 June 2013: 43,683,833) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 377,855 new ordinary shares in respect of its dividend re-investment scheme and 15,511,615 new ordinary shares under the joint offer for subscription with British Smaller Companies VCT plc.

The Company has repurchased 63,196 of its own shares in the period and these shares are held in the capital reserve. The total of 1,840,918 treasury shares has been excluded in calculating the weighted average number of ordinary shares during the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

6. Financial Assets at Fair Value through Profit or Loss

IFRS 7 and IFRS 13, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level within the following fair value measurement hierarchy:

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

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it was included at the beginning of each accounting period. There have been no transfers between these classifications in the period (2013: one). 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 and are subject to recurring valuations on at least a quarterly basis.

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

Full details of the methods used by the Company were set out on page 27 of the financial statements for the year ended 31 December 2013, a copy of which can be found at www.yfmep.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: the cost of the investment, adjusted for background factors specific to the investment, is taken as a reasonable assessment of the fair value for a period of up to one year. During this period performance is monitored for evidence of changes to this initial fair value. Valuations may be re-based following substantial investment by a third party when this offers evidence that there has been a change to fair value.

Earnings multiple: the appropriate sector FTSE® multiples are used as a market-based indication of the enterprise value of an investment company. A discount is applied to the multiple based on perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights.

Movements in investments at fair value through profit or loss during the six months to 30 June 2014 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	Level 1		
	Unquoted investments £000	Quoted equity investments £000	Total quoted and unquoted £000	Fixed income securities £000	Total investments £000
Opening cost	13,792	2,061	15,853	888	16,741
Opening valuation (loss) gain	(4)	406	402	2	404
Opening fair value at 1 January 2014	13,788	2,467	16,255	890	17,145
Additions at cost	5,185	318	5,503	475	5,978
Capitalised interest	8	-	8	-	8
Disposal proceeds	(359)	(492)	(851)	(1,365)	(2,216)
Net profit on disposal*	34	50	84	-	84
Change in fair value	(395)	59	(336)	-	(336)
Closing fair value at 30 June 2014	18,261	2,402	20,663	-	20,663
Closing cost	18,691	2,160	20,851	-	20,851
Closing valuation (loss) gain**	(430)	242	(188)	-	(188)
Closing fair value at 30 June 2014	18,261	2,402	20,663	-	20,663

* The net profit on disposal in the table above is £84,000 whereas that shown in Statement of Comprehensive Income is £347,000. The difference comprises deferred proceeds of £263,000 in respect of assets which have been disposed and are not included within the investment portfolio at the period end.

** Following the merger between the Company and British Smaller Technology Companies VCT plc, a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of investments acquired. The relevant amount per investment is released at the point of disposal to the capital reserve. At 30 June 2014, a total of £30,000 was held on investments yet to be realised in the investment holding gains and losses reserve.

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

IFRS13 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to fair value measurement. The portfolio 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 £1,480,000 (8.1 per cent) lower. Using the upside alternative the value would be increased by £2,200,000 (12.0 per cent).

Of the Company's equity investments, 11.6 per cent are quoted on AIM (31 December 2013: 15.2 per cent). A five per cent increase in stock prices as at 30 June 2014 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £120,000 (31 December 2013: £123,000). 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.

Of the Company's equity investments 88.4 per cent are in unquoted companies held at fair value (December 2013: 84.8 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's shareholders and the total profit by £550,000 (1.4 per cent of net assets). A change in the opposite direction would have decreased net assets attributable to the Company's shareholders and the total profit for the period by the same amount.

The total of fair value adjustments below cost made against investments at 30 June 2014 amounted to £275,000 (31 December 2013: £524,000).

There have been no individual fair value adjustments downwards during the period that exceeded five per cent of the total assets of the Company (31 December 2013: none).

Fixed income securities comprise UK Government stocks and are classified as financial assets through profit or loss. Their use is as temporary holdings until capital investment opportunities arise.

The disposals shown in the table opposite took place during the period (all companies are unquoted unless otherwise stated).

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2014	Gain over opening carrying value	Profit (loss) on original cost
	£000	£000	£000	£000	£000
Loan repayments					
DisplayPlan Holdings Limited	228	175	191	37	53
GTK (UK) Limited	56	56	56	–	–
Bagel Nash Group Limited	40	40	40	–	–
Callstream Group Limited	35	23	38	(3)	12
	359	294	325	34	65
Equity disposals					
Pressure Technologies plc*	200	47	148	52	153
Iomart Group plc*	97	30	90	7	67
Vianet Group plc*	45	61	42	3	(16)
Optos plc*	150	80	162	(12)	70
	492	218	442	50	274
Total disposals	851	512	767	84	339
<i>Deferred Proceeds</i>					
Sirigen Group Limited (included in receivables)	263	–	–	263	263
Total proceeds from quoted and unquoted investments	1,114	512	767	347	602
Fixed income securities	1,365	1,365	1,365	–	–
Total	2,479	1,877	2,132	347	602

*Designates AIM quoted investments

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 £39,330,000 (30 June 2013 and 31 December 2013: £30,258,000 and £30,458,000 respectively) and 62,269,837 (30 June 2013 and 31 December 2013: 46,371,537 and 46,443,563 respectively) ordinary shares in issue at 30 June 2014.

The 1,840,918 (30 June 2013: 1,632,722 and 31 December 2013: 1,777,722) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 June 2014. 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.

8. Total Return

Total return per share is calculated on cumulative dividends paid of 41.5 pence per ordinary share (30 June 2013: 37.0 pence per ordinary share and 31 December 2013: 39.0 pence per ordinary share) plus the net asset value as calculated in note 7.

9. Directors

The directors of the Company are: Mr R Last, Mr R M Pettigrew, and Mr P C Waller.

10. Other Information

Copies of this interim report can be obtained from the Company's registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ or from www.bscfunds.com.

Advisers to the Company

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Peter Charles Waller

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Investor Workshop

Wednesday 4 February 2015

Following the success of the 19th Shareholder Workshop in February 2014, the next Shareholder Workshop is being held on **Wednesday 4 February 2015** at Freemasons' Hall, 60 Great Queen Street, London, WC2B 5AZ. The Hall is a very short walk from Holborn Tube Station.

Freemasons' Hall is the headquarters of the United Grand Lodge of England and was built between 1927-1932 as a memorial to the Freemasons who died in the First World War. It is one of the finest Art Deco buildings in England.

The stunning corridors, Grand Temple and distinctive exteriors of Freemasons' Hall have played a crucial supporting role on screen, where scenes from Poirot, Sherlock Holmes, Spooks and Hitchhikers Guide to the Galaxy, to name but a few, have all been filmed.

Registration is at 10.30 am with tea and coffee available from 10.00 am. The presentations will start at 11.00 am.

You will be given the opportunity to meet the Investment Adviser Team and hear presentations from some of the investee companies. Lunch will be provided at around 1.00 pm.

After lunch there will be a presentation from David Hall, Managing Director of YFM Private Equity Limited. After this there will be a **Question and Answer Session** or, if you prefer, the opportunity to take a tour of this iconic location. If you would like to attend the Q&A Session but also be included in the tour, we have arranged for a second tour, after the Q&A Session has finished. Please indicate your preference on the reply form.

Further information

If you wish to attend the Workshop please complete the reply form included with the covering letter. For any queries, please contact **Tracey Nice** on **0113 294 5055** or tracey.nice@yfmeop.com



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