

British Smaller Companies VCT2 plc

A blue circular graphic with a white border containing the text 'Interim Report' and 'for the six months ended 30 June 2017'. The background of the cover features overlapping circles in purple, orange, and grey.

Interim Report

for the
six months ended
30 June 2017

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Advisers to the Company

FINANCIAL CALENDAR

Results Announced	23 August 2017
Ex-Dividend Date	31 August 2017
Record Date	1 September 2017
DRIS Election Date	15 September 2017
Dividend Paid	29 September 2017

FINANCIAL HIGHLIGHTS



113.0
pence

113.0 pence Total Return

Since 31 December 2016 your Company's total return has increased by 0.8 pence, from 112.2 pence per ordinary share to 113.0 pence per ordinary share, which includes cumulative dividends paid of 54.0 pence per ordinary share.



3.7x

3.7x Return

The sale of Selima Holding Company Ltd delivered proceeds of £1.0 million, achieving a multiple of 3.7x original cost, with the potential for further consideration.



£4.25
million

£4.25 million Fundraising

Offer for subscription fully subscribed and closed within a week of launch, raising £4.25 million.



54.0
pence

54.0 pence Cumulative Dividends Paid

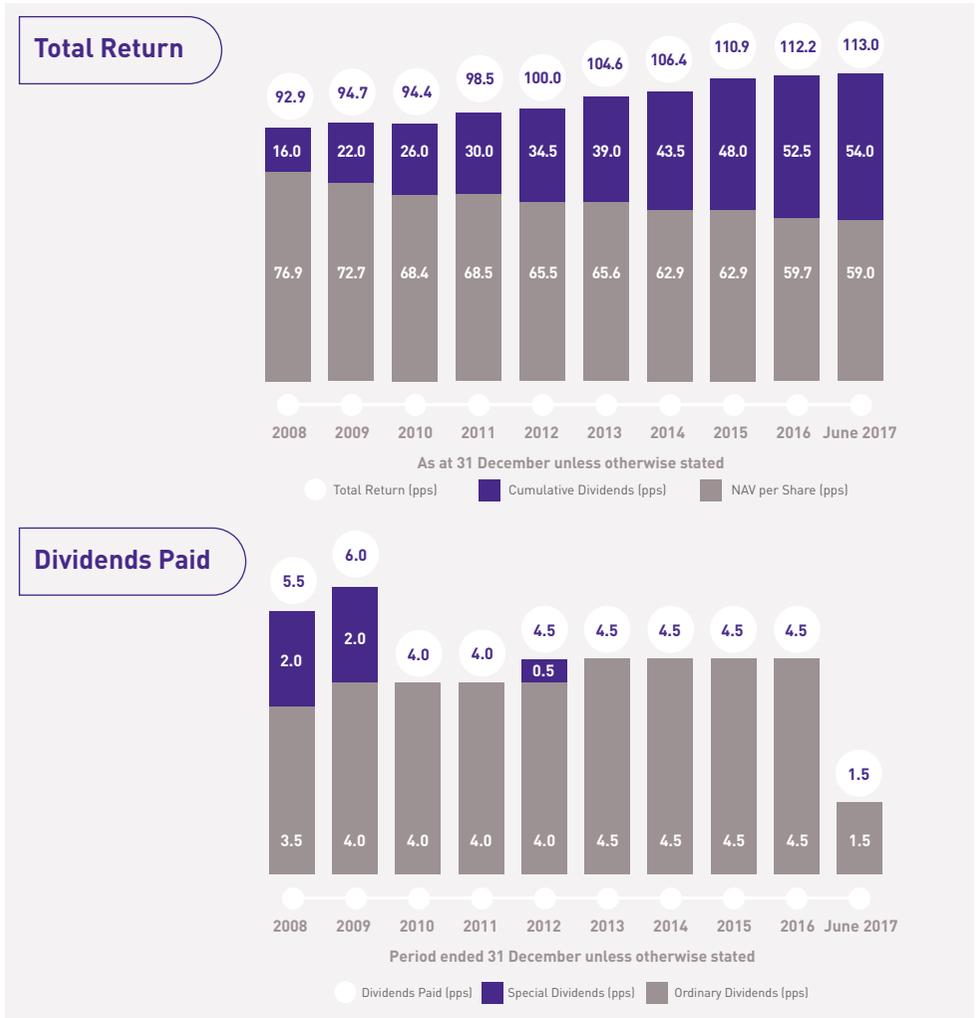
A final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2016 (year ended 31 December 2015: 2.5 pence per ordinary share) was paid on 12 May 2017 taking cumulative dividends paid since the Company's inception to 54.0 pence per ordinary share.

FINANCIAL SUMMARY

for the six months ended 30 June 2017

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

The charts below show how the total return of your Company, calculated by reference to the net asset value per ordinary share plus cumulative dividends paid per ordinary share of 54.0 pence per share, has developed over the last ten years.



The average dividend paid over the last 5 years was 4.4 pence per ordinary share, equivalent to a 7.5 per cent yield per annum.

CHAIRMAN'S STATEMENT



Your Company's portfolio delivered a steady performance, with a return of 2.1 per cent of its opening value.

Net asset value increased by 0.8 pence per ordinary share to 60.5 pence per ordinary share, prior to the payment of the final dividend of 1.5 pence per ordinary share for the year ended 31 December 2016 and your Company's total return increased to 113.0 pence per ordinary share.

New investment

There were no new investments in the period to 30 June 2017 while £0.6 million was provided to existing portfolio companies. In July 2017 a new investment of £1.2 million was completed into Friska Limited to fund the rollout of its restaurants into new cities. In addition two further potential investments totalling £1.4 million have been approved by the Board, and have recently received HMRC advance assurance.

Disposal

In May the Company realised its investment in Selima Holding Company Ltd generating initial proceeds of £1.0 million. The total return from this investment to date is £1.1 million, a multiple of 3.7x cost. There is also the possibility of further contingent returns of up to £0.7 million subject to the achievement of milestones over the period to November 2019.

Financial Results and Dividends

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

Net Asset Value	Pence per ordinary share	£000
NAV at 1 January 2017	59.7	56,109
Net underlying increase in portfolio	0.8	821
Net (loss) after expenses	-	(49)
Issue/buy-back of new shares	-	4,005
	0.8	4,777
Dividends paid	(1.5)	(1,511)
	(0.7)	3,266
NAV at 30 June 2017	59.0	59,375
Cumulative dividends paid	54.0	
Total Return at 30 June 2017	113.0	
Total Return at 31 December 2016	112.2	

The portfolio produced a value gain of £0.8 million, representing a 2.1 per cent increase over the opening value and equivalent to an increase in value for shareholders of 0.8 pence per ordinary share.

As highlighted previously the new VCT rules will lead to more investments in earlier stage businesses. While the existing portfolio will provide an element of stable returns in the short term, future returns are expected to have a higher degree of volatility.

Nonetheless, your Board remains committed to maintaining a sustainable level of dividends and a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2016 was paid in the period, bringing the cumulative dividends paid to date to 54.0 pence per ordinary share.

In addition to this your Board has proposed an interim dividend of 1.5 pence per ordinary share for the period to 30 June 2017. When combined with the final dividend in respect of the year ended 31 December 2016, dividends paid in the current financial year will total 3.0 pence per ordinary share (2016: 4.5 pence per share). The interim dividend will be paid on 29 September 2017 to shareholders on the register on 1 September 2017.

Shareholder Relations

As part of the Board's continuing dialogue with shareholders, the 22nd shareholder workshop was held in conjunction with British Smaller Companies VCT plc at the Connaught Rooms

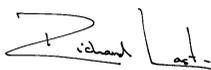
on 3 May 2017, with approaching 200 attendees. There were presentations from senior executives from two of our newest investments: Sipsynergy Limited and Matillion Limited alongside short videos about our other new portfolio companies. The Company's performance, portfolio and outlook were discussed in talks given by the Investment Adviser, followed by a question and answer session.

Your Company's electronic communications policy, whereby documents such as the annual report are disseminated via the website www.bscfunds.com rather than by post, has saved on printing costs as well as being more environmentally friendly. I am pleased to report that this policy has been well received, with 83 per cent of shareholders now receiving communications in this way.

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

Outlook

Your Board remains encouraged by the increase in investment opportunities that it is seeing. Despite the slowdown that has been seen in gaining advance assurances we remain optimistic that this enquiry rate will continue to translate into increasing the size and diversity of the investment portfolio. We also note the launch of the Patient Capital Review by the Government and will be responding to the calls for consultation and await its outcome, expected later this year, with interest.



Richard Last
Chairman

23 August 2017

OBJECTIVES AND STRATEGY

The Company's objective is to provide investors with an attractive long-term tax free dividend whilst maintaining the Company's status as a venture capital trust.

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

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

INVESTMENT REVIEW

The Company's portfolio at 30 June 2017 had a value of £38.69 million consisting of £36.48 million (94 per cent) in unquoted investments and £2.21 million (6 per cent) in quoted investments. The largest single investment represents 6.0 per cent of the net asset value.

Over the six months to 30 June 2017 the portfolio saw an underlying value gain of £0.82 million from both the ongoing and realised portfolio, consisting of £0.60 million from realisations and an overall valuation gain of £0.22 million.

There was a value gain of £0.37 million from the quoted portfolio which was offset by an overall loss of £0.15 million from the unquoted portfolio where, notwithstanding difficult trading conditions experienced by three companies, steady progress has been made by other investee companies. The most significant upward movements in the period were:

- | | |
|---|---------------|
| • Mangar Health Limited | £0.31 million |
| • Deep-Secure Limited | £0.24 million |
| • Springboard Research Holdings Limited | £0.18 million |

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

- | | |
|---------------------------------------|--------------------|
| • The Heritage Windows Holdco Limited | down £0.59 million |
| • Displayplan Holdings Limited | down £0.46 million |
| • PowerOasis Limited | down £0.30 million |

New and Follow-on Investments

In the six months to June 2017 the Company has invested a further £0.57 million into its existing portfolio; the two largest follow-on investments are as follows:

- £0.41 million into Sipsynergy (via Hosted Network Services Limited); and
- £0.10 million into Immunobiology Limited.

Realisation of Investments

During the six months to 30 June 2017 the Company generated £2.00 million from disposals and repayments of loans. This included the full exit from its investment in Selima Holding Company Ltd and the reduction of a number of AIM holdings following a period of strong share price performance.

A detailed analysis of all investments realised in the period to 30 June 2017 can be found in note 6 to this interim report.

INVESTMENT PORTFOLIO

The top 10 investments had a combined value of £21.7 million, 56.0 per cent of the total portfolio.

Software, IT and Telecommunications



Business Services



Manufacturing and Industrial Services



Healthcare



Retail and Brands



Name of Company	Date of initial investment	Current cost £000	Investment Valuation at 30 June 2017 £000	Proceeds to date £000	Realised and unrealised value to date £000
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ACC Aviation (via Newacc (2014) Limited)

Nov 14	1,379	3,564	-	3,564
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With annual sales of over £40 million, ACC Aviation has built an excellent reputation for providing services to clients across the world in all aspects of aircraft leasing, charter and flight management. The airline industry continues to change at a fast pace and the business has successfully transitioned to provide a range of solutions.

Reigate - www.flyacc.com



Intelligent Office (via IO Outsourcing Limited)

May 14	1,956	3,090	-	3,090
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Intelligent Office is a leading provider of process outsourcing solutions to UK legal practices which has won a number of significant new customers since investment. The Managed Services division works within firms' own premises to help them transform and manage key administrative functions and secretarial services.

Alloa - www.intelligentofficeuk.com



Mangar Health Limited

Jan 14	1,640	2,791	-	2,791
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Mangar is a world leader in inflatable lifting, handling and bathing equipment for the elderly, disabled and emergency services markets. It distributes its products to care providers, local authorities, ambulance services and care homes. Products facilitate extended independence for elderly users.

Powys - www.mangar.co.uk

Name of Company	Date of initial investment	Current cost £000	Investment Valuation at 30 June 2017 £000	Proceeds to date £000	Realised and unrealised value to date £000
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KeTech Enterprises Limited	Nov 15	2,000	2,019	-	2,019
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KeTech is a specialist manufacturer and distributor to the rail communications and defence sectors. Its core rail products include on train and on platform solutions and are increasingly being specified on some high profile new projects.

Nottingham - www.ketech.com



Springboard Research Holdings Limited	Oct 14	1,706	1,890	-	1,890
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Springboard Research is a leading provider of retail performance monitoring: providing footfall, dwell time and analysis of customer behaviour. It is the official provider of footfall data and benchmarks to the British Retail Consortium. A continually shifting retail environment means that retailers and landlords are seeking new ways of improving their competitive advantage. The Company has seen a significant increase in sales to North America.

Milton Keynes - www.spring-board.info



Business Collaborator Limited	Nov 14	1,340	1,810	-	1,810
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Business Collaborator is an established provider of collaboration software hosted on the cloud to the construction sector and a leader in the nascent Building Information Modelling ("BIM") software market. Sales growth is driven by the products' ability to deliver cost savings to its customer base of construction firms and asset owners, supported by government regulations.

Reading - www.groupbc.com

Investment Portfolio (continued)

Name of Company	Date of initial investment	Current cost £000	Investment Valuation at 30 June 2017 £000	Proceeds to date £000	Realised and unrealised value to date £000
 Gill Marine Holdings Limited	Sep 13	1,870	1,685	-	1,685
<p>Gill Marine is a manufacturer of technical sailing equipment and clothing. Exports account for over 70 per cent of turnover. The strategy is to develop the brand further and increase its share in existing and new markets, including direct to the customer through its relaunched website.</p> <p>Nottingham - www.gillmarine.com</p>					
 GTK (Holdco) Limited	Oct 13	592	1,664	758	2,422
<p>GTK is a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. With a small sourcing team in Taiwan and facilities in the UK and Romania it provides design, procurement and manufacturing services of essential components to sectors such as precision instrumentation, defence/security and contract equipment manufacturing.</p> <p>Basingstoke - www.gtk.co.uk</p>					
 Immunobiology Limited	Jun 03	2,482	1,612	-	1,612
<p>Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia. It has recently concluded a phase 1 human trial for its pneumonia vaccine and is currently exploring commercial collaborations to fund further work or realise value.</p> <p>Cambridge - www.immbio.com</p>					

Name of Company	Date of initial investment	Current cost £000	Investment Valuation at 30 June 2017 £000	Proceeds to date £000	Realised and unrealised value to date £000
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DisplayPlan Holdings Limited

Jan 12	70	1,558	820	2,378
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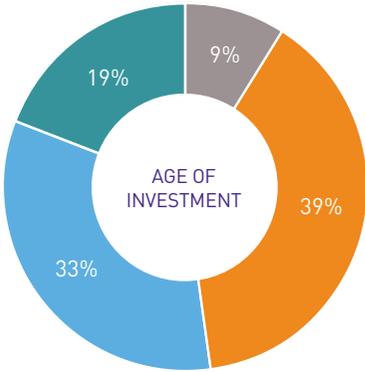
DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. Strong profits have been achieved since investment with an emphasis on continuing to broaden its customer base.

Baldock - www.displayplan.com

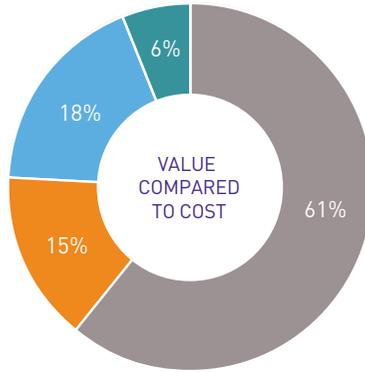
Total top 10 investments	15,035	21,683	1,578	23,261
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Name of Company	Date of initial investment	Current cost £000	Investment Valuation at 30 June 2017 £000	Proceeds to date £000	Realised and unrealised value to date £000
Total top 10 investments		15,035	21,683	1,578	23,261
Remaining Unquoted Portfolio					
Manufacturing	Leengate Holdings Limited	Dec 13	934	1,492	- 1,492
Software	Matillion Limited	Nov 16	1,400	1,400	- 1,400
Software	Sipsynergy (via Hosted Network Services Limited)	Jun 16	1,309	1,219	- 1,219
Software	Biz2Mobile Limited	Oct 16	1,000	1,000	- 1,000
Software	Traveltek Group Holdings Limited	Oct 16	980	980	- 980
Manufacturing	Wakefield Acoustics (via Malvar Engineering Limited)	Dec 14	720	980	41 1,021
Business Services	Macro Art Holdings Limited	Jun 14	575	942	264 1,206
Software	Deep-Secure Limited	Dec 09	500	869	- 869
Software	Seven Technologies Holdings Limited	Apr 12	1,238	619	762 1,381
Software	TeraView Limited	Dec 11	377	557	- 557
Retail & Manufacture	Bagel Nash Group Limited	Jul 11	630	555	200 755
Other investments	£0.5 million and below		5,682	4,184	1,503 5,687
Total unquoted investments		30,380	36,480	4,348	40,828
Quoted Portfolio					
Manufacturing	AB Dynamics plc	May 13	99	537	628 1,165
Other investments	£0.5 million and below		1,222	1,675	681 2,356
Total quoted investments		1,321	2,212	1,309	3,521
Total Portfolio		31,701	38,692	5,657	44,349
Full disposals to date		21,255	-	26,941	26,941
Total investment portfolio		52,956	38,692	32,598	71,290

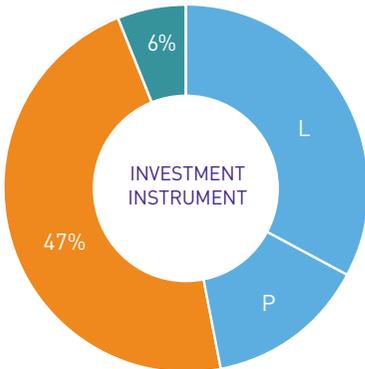
OUR PORTFOLIO AT A GLANCE



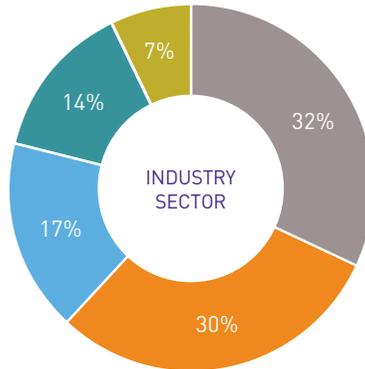
- Less than 1 year
- Between 1 & 3 years
- Between 3 & 5 years
- Greater than 5 years



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



- Loan
 - Preference Shares
 - Ordinary Shares
 - Quoted
- } 47%



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

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.7, the Board confirms that the principal risks and uncertainties facing the Company have not materially changed from those identified in the Annual Report and Accounts for the year ended 31 December 2016. The Board acknowledges that there is regulatory risk and continues to manage the Company's affairs in such a manner as to comply with section 274 of the Income Tax Act 2007.

In summary, the principal risks are:

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

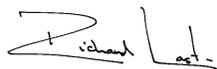
Full details of the principal risks can be found in the financial statements for the year ended 31 December 2016 on pages 29 and 30, a copy of which is available at www.bscfunds.com.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

By order of the Board



Richard Last
Chairman

23 August 2017

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2017

	Notes	Unaudited 6 months ended 30 June 2017			Unaudited 6 months ended 30 June 2016		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Income	2	741	-	741	1,083	-	1,083
Gains on disposal of investments		-	600	600	-	186	186
Gains on investments held at fair value		-	221	221	-	262	262
Total income		741	821	1,562	1,083	448	1,531
Administrative expenses:							
Investment Adviser's fee		(140)	(421)	(561)	(136)	(412)	(548)
Other expenses		(229)	-	(229)	(225)	-	(225)
		(369)	(421)	(790)	(361)	(412)	(773)
Profit before taxation		372	400	772	722	36	758
Taxation	3	(42)	42	-	(75)	75	-
Profit for the period		330	442	772	647	111	758
Total comprehensive income for the period		330	442	772	647	111	758
Basic and diluted earnings per ordinary share	5	0.33p	0.45p	0.78p	0.70p	0.12p	0.82p

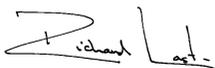
The Total column of this statement represents the Company's Unaudited Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in November 2014 and updated in January 2017 with consequential amendments - "SORP") published by the Association of Investment Companies.

UNAUDITED BALANCE SHEET

as at 30 June 2017

Notes	Unaudited 30 June 2017 £000	Unaudited 30 June 2016 £000	Audited 31 December 2016 £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	6 38,692	35,792	39,319
Trade and other receivables	863	687	837
	39,555	36,479	40,156
Current assets			
Trade and other receivables	531	757	391
Cash on fixed term deposit	1,987	3,016	3,037
Cash and cash equivalents	17,508	16,990	12,826
	20,026	20,763	16,254
Liabilities			
Current liabilities			
Trade and other payables	(206)	(188)	(301)
Net current assets	19,820	20,575	15,953
Net assets	59,375	57,054	56,109
Shareholders' equity			
Share capital	10,389	9,584	9,652
Share premium account	20,579	16,598	16,902
Capital redemption reserve	88	88	88
Other reserve	2	2	2
Merger reserve	5,525	5,525	5,525
Capital reserve	14,376	18,997	15,621
Investment holding gains and losses	7,021	4,839	7,077
Revenue reserve	1,395	1,421	1,242
Total shareholders' equity	59,375	57,054	56,109
Net asset value per ordinary share	7 59.0p	61.0p	59.7p

Signed on behalf of the Board



Richard Last

Chairman

23 August 2017

UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains and losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2015	8,939	13,337	5,615	20,781	5,127	1,051	54,850
<i>Revenue return for the period</i>	-	-	-	-	-	722	722
<i>Capital expenses</i>	-	-	-	(412)	-	-	(412)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	262	-	262
<i>Realisation of investments in the period</i>	-	-	-	186	-	-	186
<i>Taxation</i>	-	-	-	75	-	(75)	-
Total comprehensive (expense) income for the period	-	-	-	(151)	262	647	758
<i>Issue of ordinary share capital</i>	568	3,030	-	-	-	-	3,598
<i>Issue of shares - DRIS</i>	77	366	-	-	-	-	443
<i>Issue costs of ordinary shares**</i>	-	(135)	-	-	-	-	(135)
<i>Purchase of own shares</i>	-	-	-	(138)	-	-	(138)
<i>Dividends</i>	-	-	-	(2,045)	-	(277)	(2,322)
Total transactions with owners	645	3,261	-	(2,183)	-	(277)	1,446
Realisation of prior year investment holding gains	-	-	-	550	(550)	-	-
At 30 June 2016	9,584	16,598	5,615	18,997	4,839	1,421	57,054
<i>Revenue return for the period</i>	-	-	-	-	-	486	486
<i>Capital expenses</i>	-	-	-	(427)	-	-	(427)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	442	-	442
<i>Realisation of investments in the period</i>	-	-	-	153	-	-	153
<i>Taxation</i>	-	-	-	41	-	(41)	-
Total comprehensive (expense) income for the period	-	-	-	(233)	442	445	654
<i>Issue of shares - DRIS</i>	68	315	-	-	-	-	383
<i>Issue costs of ordinary shares**</i>	-	(11)	-	-	-	-	(11)
<i>Purchase of own shares</i>	-	-	-	(102)	-	-	(102)
<i>Dividends</i>	-	-	-	(1,276)	-	(593)	(1,869)
Total transactions with owners	68	304	-	(1,378)	-	(593)	(1,599)
Transfer between reserves	-	-	-	(1,933)	1,964	(31)	-
Realisation of prior year investment holding gains	-	-	-	168	(168)	-	-
At 31 December 2016	9,652	16,902	5,615	15,621	7,077	1,242	56,109

Unaudited Statement of Changes in Equity (continued)
for the six months ended 30 June 2017

	Share capital	Share premium account	Other reserves*	Capital reserve	Investment holding gains and losses	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
At 31 December 2016	9,652	16,902	5,615	15,621	7,077	1,242	56,109
<i>Revenue return for the period</i>	-	-	-	-	-	372	372
<i>Capital expenses</i>	-	-	-	(421)	-	-	(421)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	221	-	221
<i>Realisation of investments in the period</i>	-	-	-	600	-	-	600
<i>Taxation</i>	-	-	-	42	-	(42)	-
Total comprehensive income for the period	-	-	-	221	221	330	772
<i>Issue of ordinary share capital</i>	679	3,571	-	-	-	-	4,250
<i>Issue of shares - DRIS</i>	58	268	-	-	-	-	326
<i>Issue costs of ordinary shares**</i>	-	(162)	-	(10)	-	-	(172)
<i>Purchase of own shares</i>	-	-	-	(399)	-	-	(399)
<i>Dividends</i>	-	-	-	(1,334)	-	(177)	(1,511)
Total transactions with owners	737	3,677	-	(1,743)	-	(177)	2,494
Realisation of prior year investment holding gains	-	-	-	277	(277)	-	-
At 30 June 2017	10,389	20,579	5,615	14,376	7,021	1,395	59,375

* 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.

Unaudited Statement of Changes in Equity (continued) for the six months ended 30 June 2017

Reserves available for distribution

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

	Capital reserve £000	Revenue reserve £000	Total £000
Distributable reserves as on previous page	14,376	1,395	15,771
Less : Interest and dividends not yet distributable	-	(1,163)	(1,163)
: Cancelled share premium not yet distributable	(1,343)	-	(1,343)
Reserves available for distribution*	13,033	232	13,265

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

The capital reserve (£14,376,000) and the revenue reserve (£1,395,000) are both distributable reserves. These reserves total £15,771,000, representing a decrease of £1,092,000 in the period since 31 December 2016. 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 £15,771,000 shown above, £1,163,000 relates to interest and dividends receivable from 2018 onwards and £1,343,000 of cancelled share premium which becomes distributable from 1 January 2018.

On filing these interim financial statements at Companies House, the reserves available for distribution will be £13,265,000.

The Company has applied to the High Court to cancel the amount standing to the credit of the share premium account at the date that the court order is made. The total amount of share premium to be cancelled includes:

- £342,000 which, if cancelled prior to 31 December 2017, will become distributable once the annual accounts for the year ending 31 December 2017 have been filed at Companies House; and
- £12,995,000 which, if cancelled prior to 30 September 2018, will become distributable from 1 January 2019.

UNAUDITED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2017

Note	Unaudited 6 months ended 30 June 2017 £000	Unaudited 6 months ended 30 June 2016 £000	Audited year ended 31 December 2016 £000
Profit before taxation	772	758	1,412
(Decrease) increase in trade and other payables	(95)	(96)	6
Increase (decrease) in trade and other receivables	83	(122)	(275)
Gains on disposal of investments	(600)	(186)	(339)
Profit on investments held at fair value	(221)	(262)	(704)
Capitalised interest and dividends	-	(20)	(80)
Net cash (outflow) inflow from operating activities	(61)	72	20
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	(571)	(1,050)	(4,508)
Proceeds from sale of financial assets at fair value through profit or loss	1,770	2,099	2,874
Deferred consideration	-	2	183
Cash maturing from fixed term deposit	1,052	-	-
Cash placed on fixed term deposit	-	(1,024)	(1,045)
Net cash inflow (outflow) from investing activities	2,251	27	(2,496)
Cash flows from financing activities			
Issue of ordinary shares	4,230	3,598	3,598
Costs of ordinary share issues*	(153)	(135)	(146)
Purchase of own shares	(399)	(138)	(240)
Dividends paid	4	(1,878)	(3,354)
Net cash inflow (outflow) from financing activities	2,492	1,447	(142)
Net increase (decrease) in cash and cash equivalents	4,682	1,546	(2,618)
Cash and cash equivalents at the beginning of the period	12,826	15,444	15,444
Cash and cash equivalents at the end of the period	17,508	16,990	12,826

* 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 2016 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2016. 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 2016. 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 2016 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 and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these interim financial statements. These include IFRS 9, IFRS 15, IFRS 16, IFRIC 22 and amendments to IFRS 1, IFRS 2, IFRS 4, IFRS 15, IFRS 17, IAS 28, IAS 40 and IFRIC 23. Following an initial assessment, the Company does not expect that these standards, amendments, interpretations, issued but not yet effective, will have a material impact on its 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 2017 the Company held cash balances and fixed term deposits with a combined value of £19,495,000. 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.

Explanatory Notes to the Unaudited Condensed Financial Statements (continued)

2 Income

	Unaudited 6 months ended 30 June 2017 £000	Unaudited 6 months ended 30 June 2016 £000
Income from investments		
- Dividends from unquoted companies	151	340
- Dividends from AIM quoted companies	6	7
	157	347
- Interest on loans to unquoted companies	525	640
Income from investments held at fair value through profit or loss	682	987
Interest on bank deposits	59	96
	741	1,083

3 Taxation

	Unaudited 6 months ended 30 June 2017			Unaudited 6 months ended 30 June 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	372	400	772	722	36	758
Profit before taxation multiplied by the blended standard small company rate of corporation tax in UK of 19.25% (2016: 20%)	72	77	149	144	7	151
Effect of:						
UK dividends received	(30)	-	(30)	(69)	-	(69)
Non-taxable profits on investments	-	(158)	(158)	-	(90)	(90)
Excess expenses	-	39	39	-	8	8
Tax charge (credit)	42	(42)	-	75	(75)	-

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 2017			Unaudited 6 months ended 30 June 2016			Audited Year ended 31 December 2016		
	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 2016 of 1.5p (2015: 2.5p) per ordinary share	177	1,334	1,511	277	2,045	2,322	277	2,045	2,322
Interim dividend for the year ended 31 December 2016 of 2.0p per ordinary share	-	-	-	-	-	-	593	1,276	1,869
	177	1,334	1,511	277	2,045	2,322	870	3,321	4,191
Shares allotted under DRIS			(326)			(443)			(826)
Unclaimed dividends			1			(1)			(11)
Dividends paid in the Statement of Cash Flows			1,186			1,878			3,354

An interim dividend of 1.5 pence per ordinary share, amounting to approximately £1.51 million, is proposed. The dividend has not been recognised in these half year financial statements as the obligation did not exist at the balance sheet date.

5 Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to equity shareholders of £772,000 (30 June 2016: £758,000) and 99,223,205 (30 June 2016: 92,656,544) 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 £330,000 (30 June 2016: £647,000) and 99,223,205 (30 June 2016: 92,656,544) ordinary shares being the weighted average number of ordinary shares in issue during the period.

The basic and diluted capital earnings per ordinary share is based on the capital profit attributable to equity shareholders of £442,000 (30 June 2016: £111,000) and 99,223,205 (30 June 2016: 92,656,544) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 583,201 new ordinary shares in respect of its dividend re-investment scheme and 6,787,231 ordinary shares of 10 pence each under the offer for subscription launched on 3 January 2017, raising gross proceeds of £4.25 million.

The Company has repurchased 710,000 of its own shares in the period and these shares are held in the capital reserve. The total of 3,255,746 treasury shares has been excluded in calculating the weighted average number of ordinary shares during the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Investment Adviser Agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 30 June 2017, 31 December 2016 or 30 June 2016.

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.

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

- **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. 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 (2016: 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 (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 55 of the financial statements for the year ended 31 December 2016, a copy of which can be found at www.bscfunds.com. Where investments are in quoted stocks, fair value is set at the market price.

The primary methods used for valuing non-quoted investments, and the key assumptions relating to them are:

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

Explanatory Notes to the Unaudited Condensed Financial Statements (continued)

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

Movements in investments at fair value through profit or loss during the six months to 30 June 2017 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments £000	Level 1 Quoted Equity Investments £000	Total Investments £000
Opening cost	30,853	1,419	32,272
Opening valuation gain	6,394	653	7,047
Opening fair value at 1 January 2017	37,247	2,072	39,319
Additions at cost	571	-	571
Disposal proceeds	(1,730)	(272)	(2,002)
Net profit on disposal *	542	41	583
Change in fair value	(150)	371	221
Closing fair value at 30 June 2017	36,480	2,212	38,692
Closing cost	30,380	1,321	31,701
Closing valuation gain **	6,100	891	6,991
Closing fair value at 30 June 2017	36,480	2,212	38,692

* The net profit on disposal in the table above is £583,000 whereas that shown in the Statement of Comprehensive Income is £600,000. The difference comprises the gain of £17,000 arising on deferred proceeds in respect of assets which have been disposed and are not included within the investment portfolio at the period end.

** Following the merger between the Company and British Smaller Technology Companies VCT plc, a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of investments acquired. The relevant amount per investment is released at the point of disposal to the capital reserve. At 30 June 2017, a total of £30,000 was held on investments yet to be realised in the investment holding gains and losses reserve.

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

IFRS13 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to fair value measurement. Each unquoted portfolio company has been reviewed and both downside and upside alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternative the value of the unquoted investments would be £3,037,000 (8.3 per cent) lower. Using the upside alternative the value would be increased by £3,301,000 (9.0 per cent).

Of the Company's investments, 94 per cent are in unquoted companies held at fair value (31 December 2016: 95 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® PE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets

attributable to the Company's shareholders and the total profit by £2,818,000 (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 £2,653,000 (4.5 per cent of net assets).

Of the Company's equity investments, 6 per cent are quoted on AIM (31 December 2016: 5 per cent). A five per cent increase in stock prices as at 30 June 2017 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £111,000 (31 December 2016: £104,000). 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 five per cent of the total assets of the Company (31 December 2016: 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 2017	Gain over opening carrying value	Profit (loss) on original cost
	£000	£000	£000	£000	£000
<i>Unquoted investments</i>					
GTK (Holdco) Limited	149	149	149	-	-
Ness (Holdings) Limited	130	1,012	-	130	(882)
Harvey Jones Holdings Limited	403	403	401	2	-
Macro Art Holdings Limited	52	52	52	-	-
Selima Holding Company Ltd	996	300	586	410	696
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	-	1,133	-	-	(1,133)
	1,730	3,049	1,188	542	(1,319)
<i>Quoted investments</i>					
AB Dynamics plc	125	24	125	-	101
Gooch & Housego plc	147	74	106	41	73
	272	98	231	41	174
Total from disposals in the period	2,002	3,147	1,419	583	(1,145)
<i>Revaluation of deferred consideration:</i>					
Callstream Group Limited	17	-	-	17	17
Total from quoted and unquoted investments	2,019	3,147	1,419	600	(1,128)

The proceeds in the table above total £2,019,000, whereas that shown in the Statement of Cash Flows is £1,770,000. The difference comprises deferred consideration which is expected to be received after 30 June 2017.

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 £59,375,000 (30 June 2016 and 31 December 2016: £57,054,000 and £56,109,000 respectively) and 100,634,746 (30 June 2016 and 31 December 2016: 93,470,001 and 93,974,314 respectively) ordinary shares in issue at 30 June 2017.

The 3,255,746 (30 June 2016 and 31 December 2016: 2,367,533 and 2,545,746) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 June 2017. The Company has no securities that would have a dilutive effect and hence basic and diluted net asset value per ordinary share are the same.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Investment Adviser Agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 30 June 2017, 31 December 2016 or 30 June 2016.

8 Total Return

Total return per share is calculated on cumulative dividends paid of 54.0 pence per ordinary share (30 June 2016: 50.5 pence per ordinary share and 31 December 2016: 52.5 pence per ordinary share) plus the net asset value as calculated in note 7.

9 Directors

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

10 Other Information

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

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