

# British Smaller Companies VCT2 plc

**Interim Report**  
**for the 6 months ended 30 June 2011**



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1 Embankment Place  
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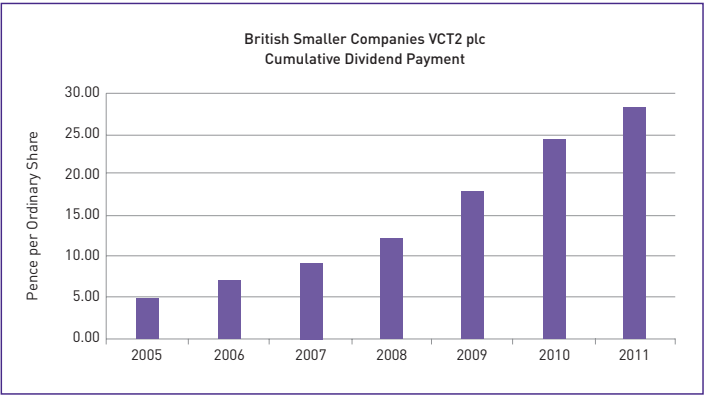
**The Royal Bank of Scotland plc**  
27 Park Row  
Leeds LS1 5QB

# Financial Highlights

For the 6 months ended 30 June 2011

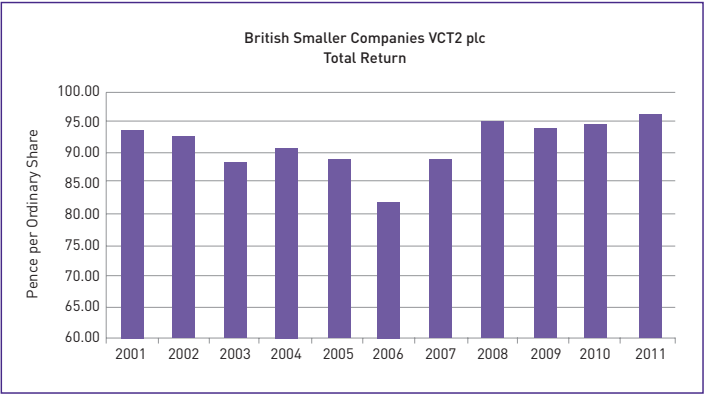
The Total Return as at 30 June 2011 to those Shareholders who invested in the first round of fundraising is 96.0 pence per Ordinary Share. This compares to 94.1 pence per Ordinary Share at 30 June 2010 and 94.4 pence per Ordinary Share at 31 December 2010.

The chart below shows the cumulative dividend paid to Shareholders.



Cumulative Dividend Payment

The second chart shows how the Total Return, calculated by reference to the Net Asset Value per Ordinary Share plus cumulative dividends paid per Ordinary Share, has developed over the years since inception.



Total Shareholder Return

# Chairman's Statement

In the six months to 30 June 2011 significant progress has been made by many portfolio businesses and this is now beginning to show through in improving valuations. Although the challenging economic times have continued, many businesses have previously taken tough actions to become more efficient and several are now proactively seeking to exploit changes in their market conditions to gain market share and create value. The Company continues to support the portfolio and in April 2011 raised an additional £4.0 million of funds pursuant to the linked offer with British Smaller Companies VCT plc, and remains well placed to take advantage of the growing investment activity levels.

The Total Return to Shareholders as at 30 June 2011 amounted to 96.0 pence per Ordinary Share, representing a year to date increase of 1.6 pence from the 94.4 pence per Ordinary Share at 31 December 2010 and an increase of 1.9 pence over the 12 month period since 30 June 2010. This Total Return includes cumulative dividends paid which now stand at 28.0 pence per Ordinary Share.

The Net Asset Value at 30 June 2011 is 68.0 pence per Ordinary Share (68.4 pence per Ordinary Share 31 December 2010), which reflects an increase in the portfolio values of 1.6 pence per Ordinary Share and payment of a 2.0 pence per Ordinary Share final dividend paid in June 2011.

## Interim Management Report

Against the backdrop of ongoing economic challenges, the Company remains focused on building a strong and diversified portfolio and seeking to gradually improve levels of portfolio income. Significant positive steps have been made in this regard, with the past 6 months seeing 7.4% value growth from an increasingly diversified and well funded portfolio. Over the period to 30 June 2011 there have been no significant realisations from the portfolio. Some realisation opportunities

may occur in the short term but these are likely to become more frequent and attractive as economic conditions improve, with several businesses offering the potential for significant value enhancement.

Over the six month period to 30 June 2011 a total of £1.2 million has been invested into 7 businesses. A further investment of £133,000 was made into Sirigen Limited, the second and final tranche of a £3.0 million funding round agreed last year, of which the Company invested £400,000. This investment has enabled Sirigen to further the technical development of its innovative fluorescent labelling products which can significantly improve the sensitivity of a wide range of diagnostic tests.

The remaining 6 investments were made into AiM quoted businesses which were selected to provide a mix of capital growth and income via dividends. May Gurney Integrated Services plc (£212,000) manages infrastructure support services, Iomart Group plc (£198,000) provides web-based hosting services, Tikit Group plc (£198,000) is a provider of consulting and IT services to legal firms, Group NBT plc (£197,000) administers domain names and various internet services, Zergo Group plc (£197,000) is a provider of marketing solutions via mobile devices and EKF Diagnostics plc (£77,000) manages a wide range of medical diagnostic services.

Excluding these new investments and the £42,000 value growth in gilts, the opening portfolio value has grown by £534,000 (7.7%) over the six month period to 30 June 2011. In addition a further £23,000 has been recognised in respect of the DxS Ltd deferred consideration and is included within the debtors balance at 30 June 2011. Network security provider, Deep-Secure Ltd, has now delivered a profitable first year since the Company's investment in the buyout in December 2009 and we anticipate further profit growth in 2011 with a strong order pipeline. Cambridge Cognition Limited has established a

# Chairman's Statement

profitable business model for its diagnostic products for use in clinical trial and is now seeking to roll out products for wider clinical applications. To complement its core reference products, Primal Pictures Limited has concluded the development of its new anatomy and physiology online training product, which has received significant market interest with a number of customer trials underway.

There has been no change to the principal risks and uncertainties facing the Company since the publication of the financial statements for the year ended 31 December 2010. In summary, the principal risks are:

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

Full details of the principal risks can be found in the financial statements for the year ended 31 December 2010 on page 21, a copy of which can be found at [www.yfmep.com](http://www.yfmep.com).

## Financial Results

The result for the six months ended 30 June 2011 produced a revenue profit before tax of £2,000 and a capital profit before tax of £473,000 (2010: profit of £10,000 and loss of £119,000 respectively). It is pleasing to see a strong improvement in the aggregate value of investments over the 6 months to 30 June 2011 of £576,000 (2010: loss of £41,000). The income from the portfolio of £178,000 also represents an increase of £15,000 on the same period in 2010 and the fund manager will continue to make investments to gradually improve the income generation from the portfolio.

The movement in Net Asset Value is as follows:

	Pence/share
31 December 2010	68.4
Dividends paid in period	(2.0)
Net Increase in value	1.6
30 June 2011	68.0

Cash and investment in gilts at 30 June 2011 totalled £6.85 million (June 2010: £5.84 million), representing 43% (June 2010: 47%) of Net Asset Value before taking account of any interim dividend. The Board considers that in the short term this is sufficient to support the current portfolio and to continue its investment strategy in selective new opportunities.

## Shareholder Relations

The six months to 30 June 2011 has seen the Company's investment capacity increase through the issue of 6,268,100 shares pursuant to the recent linked offer with British Smaller Companies VCT plc, raising £4.4 million of gross proceeds. In addition the Company issued 3,762 shares pursuant to the Dividend re-investment scheme on 10 June 2011. The Board believes that the coming 12-24 months will see increasing investment opportunities and will consider the opportunity to raise further funding in the months ahead to enable the Company to take advantage of this and continue to build a strong, balanced portfolio.

The Board has recently circulated a resolution to again re-instate a share buyback policy. In October 2010 a buyback policy was introduced, expiring at the date of the AGM. As has been previously reported whilst a significant majority of Shareholders voted in favour of continuing the policy it would not have been sufficient to carry the vote and the resolution was withdrawn. Your Board believes that the re-instatement of the policy is essential for the Company for the following reasons:

# Chairman's Statement

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- i) It provides Shareholders with liquidity in order that they can realise their investment
- ii) The absence of a policy prevents significant further fundraising with all the benefits that can bring
- iii) It supports a share price that the Board believes reflects the quality of the underlying net assets

As a consequence the Board strongly recommends the re-instatement of the buyback policy.

The Board remains committed to the objective of achieving a consistent dividend stream. Following the 2010 year end dividend of 2.0 pence per Ordinary Share paid on 10 June 2011, this commitment has been continued in these interim results with your Board determining that an interim dividend of 2.0 pence per Ordinary Share will be paid on 8 September 2011 to Shareholders on the register as at 12 August 2011.

## Regulatory and Other Matters

The Government has recently launched a consultation document in respect of venture capital trusts and EIS schemes. The underlying principles of the consultation and proposed changes all seem to support the activities of the Company which has always sought to invest in the UK's smaller companies which can generate economic growth and provide investment return. This remains the core of the investment strategy and the Company's fund manager will be responding to this consultation.

## Outlook

Whilst a number of challenges remain, there are signs of improving economic conditions and it is encouraging to see many portfolio businesses reporting improving results. Overall the portfolio remains well funded with most businesses having taken the opportunity to improve efficiency or change their strategy to maximise the new market opportunities they now see. This Company is well placed to continue to support the existing portfolio companies.

The Board remains of the opinion that the forthcoming period will see many good investment opportunities for the portfolio businesses and for new investments. It was with this in mind that we increased the investment capacity of the Company and we will consider the opportunity to further increase funds in the coming months.



**Richard Last**  
**Chairman**

3 August 2011

# Investment Portfolio

Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost*	Realised Proceeds to Date	Investment Valuation at 30 June 2011	Realised and Unrealised to Date
				£000	£000	£000	£000
<b>Current Investments</b>							
Primal Pictures Limited	Dec-05	London	Medical Software	897	205	1,145	1,350
Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	–	1,128	1,128
Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	1,032	–	1,002	1,002
Deep-Secure Ltd	Dec-09	Malvern	Security Software	500	–	775	775
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	–	500	500
Waterfall Services Limited	Feb-07	Warrington	Food Services	250	–	499	499
Sirigen Limited	Oct-10	Hampshire	Medical Diagnostics	400	–	400	400
Harvey Jones Limited	May-07	London	Consumer Retail	389	–	394	394
Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	–	316	316
Brady plc	Dec-10	Cambridge	Commodities Software	239	–	283	283
Patsystems plc	Oct-07	London	Financial Services Software	317	–	258	258
Iomart Group plc	May-11	Glasgow	Internet Services	198	–	232	232
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	210	165	228	393
May Gurney Integrated Services plc	Jun-11	Norwich	Maintenance Services	212	–	214	214
Group NBT plc	May-11	London	Internet Services	197	–	200	200
Tikit Group plc	Jun-11	London	Legal Services Software	198	–	190	190
Optos plc	Dec-05	Dunfermline	Medical Instruments	115	93	186	279
Cambridge Cognition Limited	May-02	Cambridge	Medical Software	240	–	199	199
Tissuemed Limited	Dec-05	Leeds	Healthcare	48	–	120	120
Zergo Group plc	May-11	Manchester	Marketing Services	197	–	111	111
EKF Diagnostics Holdings plc	Jun-11	London	Pharmaceuticals	77	–	97	97
Brulines plc	Oct-06	Stockton-on-Tees	Electronics	81	–	67	67
Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	65	65
Intelligent Recordings Limited	Sep-08	Nottingham	Electronics	–	–	39	39
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	–	36	36
Silistix Limited	Dec-03	Manchester	Electronics	1,365	–	0	0
Solcom Limited	Dec-05	Ryde	Software	–	–	0	0
Oxis Energy Limited	Dec-05	Abingdon	Electronics	5	–	0	0
				<b>11,706</b>	<b>463</b>	<b>8,685</b>	<b>9,148</b>
Full realisations to date				7,872	14,018	–	14,018
Total realised and unrealised to date				<b>19,587</b>	<b>14,481</b>	<b>8,685</b>	<b>23,166</b>

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

# Investment Portfolio

Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost* £000	Realised to Date £000	Realised Profit (Loss) £000
<b>Realised Investments</b>						
DxS Limited	Apr-04	Manchester	Healthcare	163	2,291	2,128
Sarian Systems Limited	Dec-05	Ilkley	Telecoms	928	2,605	1,677
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	1,460
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	1,417
Vibration Technology Limited	Mar-02	Glasgow	Industrial	1,061	2,328	1,267
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	638	363
Tamesis Limited	Jul-01	London	Software	150	317	167
Voxar Limited	Dec-05	Edinburgh	Software	–	134	134
Tekton Group Limited	Dec-05	Manchester	Software	100	223	123
Arakis Limited	Mar-04	Essex	Healthcare	14	108	94
Hallco 1390 Limited	Dec-06	Manchester	Software	1	77	76
Oxonica plc	May-02	Oxford	Chemical	241	258	17
SoseiCo Limited	Aug-05	Tokyo, Japan	Healthcare	158	94	[64]
Sirus Pharmaceuticals Limited	Sep-01	Cambridge	Healthcare	270	14	[256]
Infinite Data Storage Limited**	Mar-02	Dunfermline	Software	425	–	[425]
Purely Proteins Limited	Nov-03	Cambridge	Software	438	–	[438]
ExpressOn Biosystems Limited**	Oct-02	Midlothian	Healthcare	450	–	[450]
Broadreach Networks Limited**	Feb-03	London	Telecoms	550	17	[533]
Convurgent Limited**	Dec-05	Nottingham	Software	611	–	[611]
Hallco 1389 Limited	Dec-06	Manchester	Software	49	49	–
Focus Solutions Group plc	Dec-05	Leamington Spa	Software	7	7	–
Elam-T Limited**	Dec-05	London	Electronics	–	–	–
LANergy Limited**	Dec-05	Newport	Telecoms	–	–	–
Sigtronics Limited**	Dec-05	Livingston	Electronics	–	–	–
Weston Antennas Limited**	Dec-05	Dorchester	Telecoms	–	–	–
<b>Total realised to date</b>				<b>7,872</b>	<b>14,018</b>	<b>6,146</b>

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

\*\*In receivership



# Top 15 Investments

## Primal Pictures Limited

London  
[www.primalpictures.com](http://www.primalpictures.com)

**Primal Pictures** has developed a complete range of high quality anatomical CD-ROMs aimed at medical students and healthcare professionals. Images derived from X-ray, magnetic resonance and other scan data have enabled the production

of a completely authentic anatomical model of the human body. The company has developed recurring licence revenues from reseller partners, and is now seeking to establish itself as a supplier of educational products.

## Digital Healthcare Limited

Cambridge  
[www.digital-healthcare.co.uk](http://www.digital-healthcare.co.uk)

**Digital Healthcare** has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric

markets. It has developed its UK business becoming the leading supplier of diabetic retinopathy screening software to the NHS.

## Immunobiology Limited

Cambridge  
[www.immbio.com](http://www.immbio.com)

**Immunobiology** is developing new methods of producing high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. Progress is being made

in partnership with various healthcare institutions and universities to prove the advantages of this new technology and gain regulatory clearances to begin human trials.

## Deep-Secure Ltd

Malvern  
[www.deep-secure.com](http://www.deep-secure.com)

**Deep-Secure's** market leading products protect against threats to IT security via high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more

information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data. The main customers are in the government and defence sectors where tight security is essential.

## Bluebell Telecom Group Limited

Newcastle  
[www.bluebelltelecom.com](http://www.bluebelltelecom.com)

**Bluebell** is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investments were made to assist with the next phase of Bluebell's

growth. The business anticipates further acquisition activity. The financial information relates to the results of the non-trading entity that was used to acquire Bluebell.

# Top 15 Investments

## Waterfall Services Limited

Warrington  
[www.caterplus.co.uk](http://www.caterplus.co.uk)

**Waterfall** is a contract caterer specialising in the care home sector. Since the original investment the company has expanded its original catering services business from supplying residential and care homes to supplying the educational market.

There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding the services provided to both the education and home care sectors.

## Sirigen Limited

Hampshire  
[www.sirigen.com](http://www.sirigen.com)

**Sirigen** produces reagents that improve the efficiency of analysis of the effectiveness of certain drugs. Sirigen's versatile HSF™ technology simplifies sample processing and instrumentation requirements in both

immunodiagnostic and nucleic acid based applications, and facilitates high volume screening in the radio diagnostics and other personal care applications.

## Harvey Jones Limited

London  
[www.harveyjones.com](http://www.harveyjones.com)

**Harvey Jones** is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn.

The business has continued to selectively open new stores increasing its footprint to 17 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.

## Pressure Technologies plc

Sheffield  
[www.pressuretechnologies.co.uk](http://www.pressuretechnologies.co.uk)

**Pressure Technologies** was admitted to the Alternative Investment Market (AiM) in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and

gas industry but is increasingly diversifying into other sectors, such as biogas and defence, through acquisitions. The balance sheet remains ungeared with substantial cash available.

## Brady plc

Cambridge  
[www.bradyplc.com](http://www.bradyplc.com)

AiM-listed **Brady plc** develops and provides trading and risk management systems. In December 2010 it acquired Viz Risk Management Services AS, which is a leading supplier of trading

and risk management software for energy markets. This is in addition to Brady's market leading position in software for trading metals and soft commodities.

# Top 15 Investments

## Patsystems plc

London  
[www.patsystems.com](http://www.patsystems.com)

The holding in **Patsystems** has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis Limited in August 2005. Patsystems is listed on AiM and develops trading and risk management systems for derivatives traders. It sells its products to all major financial

services and has delivered strong growth, particularly with recent further contract wins in Asia. The business has recently announced the acquisition of US based Mixit Inc, which is intended to complement Patsystem's current product offering.

## Iomart Group plc

Glasgow  
[www.iomartgroup.com](http://www.iomartgroup.com)

**Iomart** provides web-based managed hosting services through a network of owned data centres. It offers a range of managed web hosting services, domain name registration services, data

centre services and internet business directory services. Iomart aims to become a leading UK hosting company, completing the acquisition of Titan Internet Limited in 2010.

## RMS Group Holdings Limited

Goole  
[www.rms-europe.co.uk](http://www.rms-europe.co.uk)

**RMS** operates from six sites on the Humber estuary handling around 2 million tonnes of cargo a year and continues to broaden its range of customer service and expand its operations along the Humber estuary. Whilst dependent on the overall level of commodity movements the

financing structure is defensively constructed giving RMS a competitive advantage. The team have used the tough economic conditions to consolidate their market position and have been able to repay half of the original loan instrument.

## May Gurney Integrated Services plc

Norwich  
[www.maygurney.co.uk](http://www.maygurney.co.uk)

**May Gurney** is an infrastructure support services company which provides essential maintenance and enhancement services to clients in the public and regulated sectors. The group is well managed

and has grown through a series of low risk acquisitions and is ungeared with a significant cash balance.

## Group NBT plc

London  
[www.groupnbt.com](http://www.groupnbt.com)

**Group NBT** is engaged in the provision of domain names and other internet-related services, hosting tens of thousands of websites. The business model is robust with strong recurring

revenues, a track record of significant revenue and earnings growth and with high barriers to entry.

# Statement of Comprehensive Income

For the 6 months ended 30 June 2011

	Notes	Unaudited 6 months ending 30 June 2011			Unaudited 6 months ending 30 June 2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments		–	7	7	–	35	35
Gains (losses) on investments held at fair value		–	576	576	–	(41)	(41)
Income	2	178	–	178	163	–	163
Administrative expenses:							
Fund management fee		(36)	(110)	(146)	(38)	(113)	(151)
Other expenses		(140)	–	(140)	(115)	–	(115)
		(176)	(110)	(286)	(153)	(113)	(266)
<b>Profit (loss) before taxation</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
Taxation	3	–	–	–	–	–	–
<b>Profit (loss) for the period attributable to equity Shareholders</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
<b>Total comprehensive income for the period attributable to equity Shareholders</b>		<b>2</b>	<b>473</b>	<b>475</b>	<b>10</b>	<b>(119)</b>	<b>(109)</b>
<b>Basic and diluted earnings (loss) per Ordinary Share</b>	5	<b>0.01p</b>	<b>2.32p</b>	<b>2.33p</b>	<b>0.06p</b>	<b>(0.67)p</b>	<b>(0.62)p</b>

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

# Balance Sheet

As at 30 June 2011

	Unaudited 6 months ended 30 June 2011 £000	Unaudited 6 months ended 30 June 2010 £000	Audited year ended 31 December 2010 £000
Notes			
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	8,684	6,300	6,939
Fixed income government securities	2,839	4,044	3,980
Financial assets at fair value through profit or loss	11,524	10,344	10,919
Trade and other receivables	281	237	259
	11,805	10,581	11,178
<b>Current assets</b>			
Trade and other receivables	173	196	193
Cash and cash equivalents	4,009	1,799	509
	4,182	1,995	702
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(98)	(78)	(51)
<b>Net current assets</b>	4,084	1,917	651
<b>Net assets</b>	15,888	12,498	11,829
<b>Shareholders' equity</b>			
Share capital	2,412	1,784	1,785
Share premium	4,346	806	810
Capital redemption reserve	88	88	88
Merger reserve	5,525	5,525	5,525
Other reserve	2	2	2
Capital reserve	2,964	4,471	3,587
Investment holding losses	(4,135)	(4,950)	(4,763)
Special reserve	4,352	4,786	4,463
Revenue reserve	334	(14)	332
<b>Total Shareholders' equity</b>	15,888	12,498	11,829
<b>Net Asset Value per Ordinary Share</b>	6	70.1p	68.4p

Signed on behalf of the Board



**Richard Last**  
**Chairman**

3 August 2011

# Statement of Changes in Equity

For the 6 months ended 30 June 2011 (unaudited)

	Share capital	Share premium account	Merger reserve	*Other reserves	Capital reserve	Investment holding gains (losses) reserve	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2009</b>	<b>1,664</b>	<b>69</b>	<b>5,525</b>	<b>90</b>	<b>4,442</b>	<b>(4,802)</b>	<b>4,786</b>	<b>332</b>	<b>12,106</b>
<i>Revenue return for the period</i>	-	-	-	-	-	-	-	10	10
<i>Capital expenses</i>	-	-	-	-	(113)	-	-	-	(113)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	-	(41)	-	-	(41)
<i>Realisation of investments in the period</i>	-	-	-	-	35	-	-	-	35
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(78)</b>	<b>(41)</b>	<b>-</b>	<b>10</b>	<b>(109)</b>
<i>Issue of share capital</i>	120	788	-	-	-	-	-	-	908
<i>Issue costs</i>	-	(51)	-	-	-	-	-	-	(51)
<i>Dividends</i>	-	-	-	-	-	-	-	(356)	(356)
<b>Total transactions with Shareholders</b>	<b>120</b>	<b>737</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(356)</b>	<b>501</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107</b>	<b>(107)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2010</b>	<b>1,784</b>	<b>806</b>	<b>5,525</b>	<b>90</b>	<b>4,471</b>	<b>(4,950)</b>	<b>4,786</b>	<b>(14)</b>	<b>12,498</b>
<i>Revenue return for the period</i>	-	-	-	-	-	-	-	-	-
<i>Capital expenses</i>	-	-	-	-	(118)	-	-	-	(118)
<i>Investment holding loss on investments held at fair value</i>	-	-	-	-	-	(211)	-	-	(211)
<i>Gain on disposal of investments in the period</i>	-	-	-	-	335	-	-	-	335
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>217</b>	<b>(211)</b>	<b>-</b>	<b>-</b>	<b>6</b>
<i>Issue of share capital</i>	1	4	-	-	-	-	-	-	5
<i>Issue costs</i>	-	-	-	-	-	-	-	-	-
<i>Purchase of own shares</i>	-	-	-	-	-	-	(323)	-	(323)
<i>Dividends</i>	-	-	-	-	(703)	-	-	346	(357)
<b>Total transactions with Shareholders</b>	<b>1</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>(703)</b>	<b>-</b>	<b>(323)</b>	<b>346</b>	<b>(675)</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(398)</b>	<b>398</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2010</b>	<b>1,785</b>	<b>810</b>	<b>5,525</b>	<b>90</b>	<b>3,587</b>	<b>(4,763)</b>	<b>4,463</b>	<b>332</b>	<b>11,829</b>

# Statement of Changes in Equity

For the 6 months ended 30 June 2011 (unaudited) (continued)

	Share capital	Share premium account	Merger reserve	*Other reserves	Capital reserve	Investment holding gains (losses) reserve	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2010</b>	<b>1,785</b>	<b>810</b>	<b>5,525</b>	<b>90</b>	<b>3,587</b>	<b>(4,763)</b>	<b>4,463</b>	<b>332</b>	<b>11,829</b>
<i>Revenue loss for the period</i>	-	-	-	-	(110)	-	-	2	(108)
<i>Capital expenses</i>	-	-	-	-	-	-	-	-	-
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	-	576	-	-	576
<i>Gain on disposal of investments in the period</i>	-	-	-	-	7	-	-	-	7
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(103)</b>	<b>576</b>	<b>-</b>	<b>2</b>	<b>475</b>
<i>Issue of Ordinary Share capital</i>	627	3,582	-	-	-	-	-	-	4,209
<i>Issue costs of Ordinary Shares</i>	-	(46)	-	-	-	-	-	-	(46)
<i>Purchase of own shares</i>	-	-	-	-	-	-	(111)	-	(111)
<i>Dividends</i>	-	-	-	-	(468)	-	-	-	(468)
<b>Total transactions with Shareholders</b>	<b>627</b>	<b>3,536</b>	<b>-</b>	<b>-</b>	<b>(468)</b>	<b>-</b>	<b>(111)</b>	<b>-</b>	<b>3,584</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52)</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2011</b>	<b>2,412</b>	<b>4,346</b>	<b>5,525</b>	<b>90</b>	<b>2,964</b>	<b>(4,135)</b>	<b>4,352</b>	<b>334</b>	<b>15,888</b>

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

# Statement of Cash Flows

For the 6 months ended 30 June 2011

	Unaudited 6 months ended 30 June 2011 £000	Unaudited 6 months ended 30 June 2010 £000	Audited year ended 31 December 2010 £000
<b>Net cash (outflow) inflow from operating activities</b>	<b>(40)</b>	<b>(207)</b>	<b>(312)</b>
<b>Cash flows from investing activities</b>			
Purchase of financial assets at fair value through profit or loss	<b>(2,352)</b>	(1,767)	(3,135)
Proceeds from sale of financial assets at fair value through profit or loss	<b>2,307</b>	932	1,525
Deferred consideration	<b>–</b>	–	301
<b>Net cash (used in) from investing activities</b>	<b>(45)</b>	<b>(835)</b>	<b>(1,309)</b>
<b>Cash flows from (used in) financing activities</b>			
Issue of Ordinary Shares	<b>4,210</b>	908	913
Cost of Ordinary Shares	<b>(46)</b>	(15)	(51)
Purchase of own shares	<b>(111)</b>	–	(323)
Dividends paid	<b>(468)</b>	(356)	(713)
<b>Net cash from (used in) financing activities</b>	<b>3,585</b>	<b>537</b>	<b>(174)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,500</b>	<b>(505)</b>	<b>(1,795)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>509</b>	<b>2,304</b>	<b>2,304</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>4,009</b>	<b>1,799</b>	<b>509</b>



# 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 8, 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 comply with IAS 34 'Interim financial reporting' and the Disclosure and Transparency Rules of the Financial Services 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 2010 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2010. 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 2010.

The financial statements for the year ended 31 December 2010 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 which have been issued and are effective for this accounting period but are not currently relevant for the Company are IFRS 1 (Revised), IFRS 2 (Amendment), IFRS 3 (Revised), IFRS 5 (Amendment), IAS 27 (Revised), IAS 32 (Amendment) and IFRICs 17 and 18.

## 2. Income

	Unaudited 6 months ended 30 June 2011 £000	Unaudited 6 months ended 30 June 2010 £000
Income from investments		
– Dividends from unquoted companies	3	3
– Dividends from AIM quoted companies	20	13
	23	16
– Interest on loans to unquoted companies	77	57
– Fixed interest Government securities	69	83
Income from investments held at fair value through profit or loss	169	156
Interest on bank deposits	9	7
	178	163

# Notes to the Unaudited Financial Statements

## 3. Taxation

	Unaudited 6 months ended 30 June 2011			Unaudited 6 months ended 30 June 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit (loss) before taxation	2	473	475	10	(119)	(109)
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2010: 21%)	–	95	95	2	(25)	(23)
<b>Effect of:</b>						
UK dividends received	(5)	–	(5)	(3)	–	(3)
Non taxable profits on investments	–	(117)	(117)	–	1	1
Excess management expenses	5	22	27	1	24	25
Tax (credit)/ charge	–	–	–	–	–	–

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

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

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

## 4 Dividends

Amounts recognised as distributions to equity holders in the period:

	Unaudited 6 months ended 30 June 2011			Unaudited 6 months ended 30 June 2010			Audited Year ended 31 December 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final paid – 2.0p per Ordinary Share paid 10 June 2011 (2010: 2.0p)	–	467	467	–	356	356	–	356	356
Interim paid – 2.0p per Ordinary Share paid 30 September 2010	–	–	–	–	–	–	10	347	357
	–	467	467	–	356	356	10	703	713

An interim dividend of 2.0 pence per Ordinary Share, amounting to £467,185, 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.

# Notes to the Unaudited Financial Statements

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## 5. Basic and Diluted Earnings (loss) per Ordinary Share

The basic and diluted earnings per Ordinary Share is based on the profit attributable to equity Shareholders of £475,000 (30 June 2010: loss of £109,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of 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 £2,000 (30 June 2010: £10,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of shares in issue during the period.

The basic and diluted capital return per Ordinary Share is based on the capital gain attributable to equity Shareholders of £473,000 (30 June 2010: loss of £119,000) and 20,367,889 (30 June 2010: 17,705,179) shares being the weighted average number of shares in issue during the period.

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

## 6. Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per Ordinary Share is calculated on attributable assets of £15,888,000 (30 June 2010 and 31 December 2010: £12,498,000 and £11,829,000 respectively) and 23,359,278 (30 June 2010 and 31 December 2010: 17,837,519 and 17,278,696 respectively) shares in issue at the period end.

The Company has no securities that would have a dilutive effect and hence basic and diluted Net Asset Value per Ordinary Share are the same.

## 7. Total Return

Total Return per share is calculated on cumulative dividends paid of 28 pence per Ordinary Share (30 June 2010: 24 pence per Ordinary Share and 31 December 2010: 26 pence per Ordinary Share) plus the Net Asset Value as calculated in note 6.

## 8. Directors

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

## 9. Other Information

Copies of the interim report can be obtained from the Company's registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ or from the fund manager's website: [www.yfmep.com](http://www.yfmep.com).

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# British Smaller Companies VCT2 plc

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