

British Smaller Companies VCT2 plc

Unaudited Interim Results and Interim Management Report

For the six months ended 30 June 2018

British Smaller Companies VCT2 plc (the “Company”) today announces its unaudited interim results for the six months to 30 June 2018.

Highlights

- Increase in Total Return of 1.5 pence per ordinary share to 115.8 pence per ordinary share at 30 June 2018 (114.3 pence per ordinary share as at 31 December 2017).
- Investment of £5.5 million into four new and two follow-on investments during the period.
- Offer for subscription fully subscribed from existing shareholders, raising gross funds of £4.4 million.
- Proposed interim dividend of 1.5 pence per ordinary share in respect of the year ending 31 December 2018.
- Intention to launch a prospectus offer of new ordinary shares for subscription in the 2018/19 tax year. Further announcements will be made in due course.
- Richard Last to step down from the roles of Chairman and director at the Annual General Meeting in 2019.

CHAIRMAN’S STATEMENT

Total Return for the six months was 1.5 pence per ordinary share, which was 2.6 per cent of the net asset value at 31 December 2017 and your Company’s portfolio generated a return of 1.6 pence per ordinary share, which was 4.2 per cent of its opening value.

New Investment

Following the disruption to the investment pipeline previously reported, arising from delays in gaining HMRC’s advance assurance, their process has subsequently shown a marked improvement. Consequently, in the first six months of 2018, your Company completed new and follow-on investments totalling £5.5 million comprising four new investments and two follow-on investments. These were:

In March 2018 £1.0 million was invested into **Ncam Technologies Limited**. Ncam develops award-winning augmented reality technology which is utilised globally by broadcast, film and episodic broadcast TV productions. The funds will be used to support the development of new products, invest in the team, and help the business extend its reach into new territories, especially the US, where a new office opening is planned for 2018.

Also in March 2018 your Company invested £2.0 million into **Eikon Holdco Limited**, a cutting edge, end-to-end, digital post-production service provider for the film and broadcast industry based in London. Clients include Paramount Pictures, Twentieth Century Fox, Sony Pictures Entertainment, Warner Bros, Universal Pictures, CBS and Netflix. Eikon will use the investment to build a new state of the art studio in Los Angeles as well as continuing to invest in the development of technology to enhance the service delivery to customers.

In April 2018 your Company made a new investment of £0.9 million into **Hutchinson Networks Limited**, a leading provider of multi-vendor IT and network solutions to clients globally. Hutchinson will utilise the money to fund additional marketing and operational resources to accelerate international growth in a growing market.

During May 2018 £1.2 million was invested into **Arcus Global Limited**, a provider of cloud-based software solutions to local and national public sector organisations. The funding will support the continued growth of the business; building resource in technology development, sales and customer services. Together, this will enable Arcus to further expand its range of software solutions to help the public sector to increase its use of digital technologies and transform services.

Follow-on investments were made into existing portfolio companies, including an additional investment of £0.4 million into **Matillion Limited** which was part of a large secondary funding round supported by two well-known US investors.

Financial Results and Dividends

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

Total Return	Pence per ordinary share
Total Return at 1 January 2018	114.3
Net underlying increase in portfolio	1.6
Issue/buy-back of shares	(0.1)
Increase in Total Return*	1.5
Total Return at 30 June 2018	115.8

* Total Return movement represents an increase of 2.6 per cent (annualised 5.4 per cent) over the opening net asset value of 58.8 pence per ordinary share.

The portfolio produced a value gain of £1.7 million, representing a 4.2 per cent increase over the opening value and equivalent to an increase in value for shareholders of 1.6 pence per ordinary share.

Adjusting for one-off items income for the first half is comparable to the same period last year. Although interest income has remained in line with the previous year, as loans to new investments have replaced those repaid by the portfolio, much of the new interest income will be paid out on exit.

Investments made since the changes to the VCT rules in November 2015 now comprise £13.1 million (30 per cent) of the unquoted portfolio as at 30 June 2018, with £31.2 million (70 per cent) of investments made prior to the rule changes. In general, the more recent additions to the portfolio are re-investing their profits for growth, which means that the investments comprise mainly equity instruments.

As part of your Board's commitment to maintaining a sustainable level of dividends a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2017 was paid in the period, bringing the cumulative dividends paid to date to 57.0 pence per ordinary share.

Your Board has proposed an interim dividend of 1.5 pence per ordinary share for the year ending 31 December 2018 which, when combined with the final dividend in respect of the year ended 31 December 2017, will bring total dividends paid in the current financial year to 3.0 pence per ordinary share (2017: 3.0 pence per share). The interim dividend will be paid on 28 September 2018 to shareholders on the register on 31 August 2018.

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

Net Asset Value	£000	Pence per ordinary share
NAV at 1 January 2018	59,056	58.8
Net underlying increase in portfolio	1,681	1.6
Net profit after expenses	40	-
Issue/buy-back of shares	4,069	(0.1)
	5,790	1.5
NAV before the payment of dividends	64,846	60.3
Dividends paid	(1,612)	(1.5)
NAV at 30 June 2018	63,234	58.8

Shareholder Relations

As part of the Board's continuing dialogue with shareholders, the 23rd shareholder workshop was held in conjunction with British Smaller Companies VCT plc at the Honourable Artillery Company on 16 May 2018. There was a presentation from the CEO of one of our newest investments, Ncam Technologies 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.

As shareholders may be aware the General Data Protection Regulations ("GDPR") came into force on 25 May 2018. GDPR provides a greater level of protection over personal information and the Company and the Investment Adviser have taken all necessary steps to comply with its requirements. A revised Privacy Notice has been published and this can be found on your Company's website at www.bscfunds.com.

A large number of shareholders (83 percent) now receive documents such as the annual report via the website, www.bscfunds.com, rather than by post. This saves on printing costs, as well as being more environmentally friendly, and your Board would encourage all shareholders to do this.

Your Company's website www.bscfunds.com, provides a comprehensive level of information in what I hope is a user-friendly format and is refreshed on a regular basis.

Regulatory Developments

It is pleasing that the European Commission has confirmed its decision to approve the recent amendments to the VCT rules. This includes an increase in the annual investment limit for Knowledge Intensive Companies to £10 million and your Company intends to take advantage of this change at the earliest opportunity.

The Company's Investment Adviser continues to engage with HMRC and has responded to HMRC's recent consultation on the proposed changes to the advance assurance process, especially the proposal to allow VCTs to rely on their advisers on the need to obtain advance assurance for a potential investment.

Fundraising

Having reviewed your Company's likely funding requirements, the Board is considering a full prospectus fundraising during the current tax year. The quantum and mechanism of the fundraising will be communicated nearer to the launch.

Board Composition

Having enjoyed being a director of your Company for over seventeen years and Chairman since 1 January 2008, I have decided, in these days of increasing corporate governance where one not only needs to comply but be seen to comply with the new standards, to stand down as Chairman and director of your Company at the 2019 Annual General Meeting which is usually held in May. I should like to thank my colleagues on the Board and David Hall and his excellent team at YFM Equity Partners for all their help and support over the years: it has been a pleasure to work with such a professional team.

Outlook

The revised VCT rules have been approved by the European Commission including the ability to invest up to £10 million in any one year into Knowledge Intensive Companies. This change is welcomed by this Board and the industry more widely. Whilst the future trading relationship with the EU is at this time not as clear as we would like these particular rule changes will benefit VCTs and their ability to invest in UK small businesses irrespective of any wider Brexit impact.

The more mature investments in the portfolio continue to perform well and opportunities to crystallise value are constantly reviewed.

The level of investment in the first half of the year is encouraging and investments made under the new rules now make up 30 per cent of the portfolio. It is pleasing that Matillion, one of your Company's most recent investments, has attracted further investment from two well-established specialist US venture investors.

Your Board remains optimistic that the level of investment can be sustained over the medium term and therefore we hope that shareholders will take the opportunity to add to their investment in the Company in the fundraising planned for later in the year.

OBJECTIVES AND STRATEGY

The Company's objective is to grow Total Return over the medium to long-term 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 that offer opportunities in the development and application of innovation.

The Company will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain the Company's VCT status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments.

INVESTMENT REVIEW

The Company's portfolio at 30 June 2018 had a value of £46.63 million consisting of £44.25 million (95 per cent) in unquoted investments and £2.38 million (5 per cent) in quoted investments. The largest single investment represents 5.8 per cent of the net asset value.

Over the six months to 30 June 2018 the portfolio saw an underlying value gain of £1.62 million from the ongoing portfolio comprising £1.39 million from the unquoted portfolio and £0.23 million from the quoted portfolio.

The most significant upward movements in the period were:

- | | |
|---------------------|---------------|
| • ACC Aviation | £1.12 million |
| • Matillion Limited | £1.07 million |
| • Deep-Secure Ltd | £0.52 million |

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

- | | |
|---------------------------------------|--------------------|
| • DisplayPlan Holdings Limited | down £0.43 million |
| • Seven Technologies Holdings Limited | down £0.31 million |
| • Intelligent Office UK | down £0.31 million |

New and Follow-on Investments

In the six months to June 2018 the Company has invested £5.06 million into new investments and £0.47 million into follow-on investments, including £0.38 million into Matillion Limited as part of an £18 million series B fundraising that was supported by two well-known US investors, Sapphire Ventures and Scale Venture Partners.

The new investments comprise:

- £2.00 million into Eikon Holdco Limited
- £1.20 million into Arcus Global Limited
- £0.98 million into Ncam Technologies Limited and
- £0.88 million into Hutchinson Networks Limited.

Realisation of Investments

During the six months to 30 June 2018 the Company generated £1.00 million from disposals and repayments of loans. This included the full exit from its AIM investment in Allergy Therapeutics plc.

A detailed analysis of all investments realised in the period to 30 June 2018 can be found in note 6 to this interim report.

INVESTMENT PORTFOLIO

The top 10 investments had a combined value of £25.7 million, 55.1 per cent of the total portfolio.

Name of Company	Sector	Name of Company	Current cost	Investment Valuation at 30 June 2018	Proceeds to date	Realised and unrealised value to date
			£000	£000	£000	£000
Matillion Limited	Software	Nov 16	1,778	3,667	-	3,667
ACC Aviation (via Newacc (2014) Limited)	Business Services	Nov 14	145	3,622	1,233	4,855
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent office)	Business Services	May 14	1,956	2,995	-	2,995
Mangar Health Limited	Healthcare	Jan 14	1,640	2,921	-	2,921
KeTech Enterprises Limited	Software	Nov 15	2,000	2,624	-	2,624
Gill Marine Holdings Limited	Retail	Sep 13	1,870	2,052	-	2,052
Business Collaborator Limited	Software	Nov 14	1,340	2,004	-	2,004
Eikon Holdco Limited	Software	Mar 18	2,000	2,000	-	2,000
GTK (Holdco) Limited	Manufacturing	Oct 13	146	1,945	1,204	3,149
Springboard Research Holdings Limited	Business Services	Oct 14	1,765	1,883	-	1,883
Total top 10 investments			14,640	25,713	2,437	28,150
Remaining unquoted portfolio						
Deep-Secure Limited	Software	Dec 09	500	1,790	-	1,790
Leengate Holdings Limited	Manufacturing	Dec 13	934	1,532	-	1,532
Arcus Global Limited	Software	May 18	1,200	1,200	-	1,200
Friska Limited	Retail	Jul 17	1,200	1,200	-	1,200
Sipsynergy (via Hosted Network Services Limited)	Software	Jun 16	1,309	1,022	-	1,022
Ncam Technologies Limited	Software	Mar 18	977	977	-	977
Traveltek Group Holdings Limited	Software	Oct 16	980	968	-	968
Immunobiology Limited	Healthcare	Jun 03	2,582	920	-	920
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing	Dec 14	720	898	41	939
Hutchinson Networks Limited	Software	Apr 18	880	880	-	880
Macro Art Holdings Limited	Business Services	Jun 14	480	798	359	1,157
Biz2Mobile Limited	Software	Oct 16	1,000	722	-	722
DisplayPlan Holdings Limited	Business Services	Jan 12	70	681	820	1,501
£0.5 million and below	Other investments		7,371	4,954	1,371	6,325
Total unquoted investments			34,843	44,255	5,028	49,283

Quoted portfolio						
AB Dynamics plc	Manufacturing	May 13	49	588	628	1,216
EKF Diagnostics plc	Healthcare	Jun 11	437	514	-	514
Iomart Group plc	Software	May 11	119	512	209	721
£0.5 million and below	Other investments		292	765	838	1,603
Total quoted investments			897	2,379	1,675	4,054
Total portfolio			35,740	46,634	6,703	53,337
Full disposals to date			22,885	-	28,455	28,455
Total investment portfolio			58,625	46,634	35,158	81,792

The charts on page 14 of the interim report show the composition of the portfolio as at 30 June 2018 by industry sector, age of investment, investment instrument and the value compared to cost.

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 2017. 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 2017 on pages 27 and 28, a copy of which is available at www.bscfunds.com.

DIRECTOR'S 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

17 August 2018

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2018

	Notes	Unaudited 6 months ended 30 June 2018			Unaudited 6 months ended 30 June 2017		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on investments held at fair value		-	1,616	1,616	-	221	221
Income	2	859	-	859	741	-	741
Gains on disposal of investments	6	-	65	65	-	600	600
Total income		859	1,681	2,540	741	821	1,562
Administrative expenses:							
Investment Adviser's fee		(147)	(444)	(591)	(140)	(421)	(561)
Other expenses		(228)	-	(228)	(229)	-	(229)
		(375)	(444)	(819)	(369)	(421)	(790)
Profit before taxation		484	1,237	1,721	372	400	772
Taxation	3	(41)	41	-	(42)	42	-
Profit for the period		443	1,278	1,721	330	442	772
Total comprehensive income for the period		443	1,278	1,721	330	442	772
Basic and diluted earnings per ordinary share	5	0.42p	1.21p	1.63p	0.33p	0.45p	0.78p

The Total column of this statement represents the Company's Unaudited Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in November 2014 and updated in February 2018 with consequential amendments – "SORP") published by the Association of Investment Companies.

UNAUDITED BALANCE SHEET

as at 30 June 2018

	Notes	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	Audited 31 December 2017 £000
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	6	46,634	38,692	40,423
Trade and other receivables		1,004	863	825
		47,638	39,555	41,248
Current assets				
Trade and other receivables		462	530	392
Cash on fixed term deposit		1,988	1,988	1,988
Cash and cash equivalents		13,318	17,508	15,681
		15,768	20,026	18,061
Liabilities				
Current liabilities				
Trade and other payables		(172)	(206)	(253)
Net current assets		15,596	19,820	17,808
Net assets		63,234	59,375	59,056
Shareholders' equity				
Share capital		11,252	10,389	10,450
Share premium account		4,073	20,579	257
Capital redemption reserve		88	88	88
Other reserve		2	2	2
Merger reserve		5,525	5,525	5,525
Capital reserve		29,745	14,376	32,198
Investment holding gains and losses		10,925	7,021	9,090
Revenue reserve		1,624	1,395	1,446
Total shareholders' equity		63,234	59,375	59,056
Net asset value per ordinary share	7	58.8p	59.0p	58.8p

UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018

	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
<i>Revenue return for the period</i>	-	-	-	-	-	314	314
<i>Capital expenses</i>	-	-	-	(445)	-	-	(445)
<i>Investment holding gain on investments held at fair value</i>	-	-	-	-	1,988	-	1,988
<i>Realisation of investments in the period</i>	-	-	-	(560)	-	-	(560)
<i>Taxation</i>	-	-	-	31	-	(31)	-
Total comprehensive (expense) income for the period	-	-	-	(974)	1,988	283	1,297
<i>Issue of shares - DRIS</i>	61	271	-	-	-	-	332
<i>Issue costs of ordinary shares**</i>	-	(14)	-	-	-	-	(14)
<i>Cancellation of share premium account, net of costs</i>	-	(20,579)	-	20,569	-	-	(10)
<i>Purchase of own shares</i>	-	-	-	(415)	-	-	(415)
<i>Dividends</i>	-	-	-	(1,277)	-	(232)	(1,509)
Total transactions with owners	61	(20,322)	-	18,877	-	(232)	(1,616)
Realisation of prior year investment holding losses	-	-	-	(81)	81	-	-
At 31 December 2017	10,450	257	5,615	32,198	9,090	1,446	59,056

*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.

At 31 December 2017	10,450	257	5,615	32,198	9,090	1,446	59,056
Revenue return for the period	-	-	-	-	-	484	484
Capital expenses	-	-	-	(444)	-	-	(444)
Investment holding gain on investments held at fair value	-	-	-	-	1,616	-	1,616
Realisation of investments in the period	-	-	-	65	-	-	65
Taxation	-	-	-	41	-	(41)	-
Total comprehensive (expense) income for the period	-	-	-	(338)	1,616	443	1,721
Issue of ordinary share capital	737	3,663	-	-	-	-	4,400
Issue of shares - DRIS	65	294	-	-	-	-	359
Issue costs of ordinary shares**	-	(141)	-	(5)	-	-	(146)
Purchase of own shares	-	-	-	(544)	-	-	(544)
Dividends	-	-	-	(1,347)	-	(265)	(1,612)
Total transactions with owners	802	3,816	-	(1,896)	-	(265)	2,457
Realisation of prior year investment holding losses	-	-	-	(219)	219	-	-
At 30 June 2018	11,252	4,073	5,615	29,745	10,925	1,624	63,234

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

**Issue costs include both fundraising costs (where applicable) and costs incurred from the Company's DRIS.

Reserves available for distribution

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

	Capital reserve £000	Revenue reserve £000	Total £000
Distributable reserves	29,745	1,624	31,369
Less : Interest and dividends not yet distributable	-	(1,423)	(1,423)
: Cancelled share premium not yet distributable	(20,237)	-	(20,237)
Reserves available for distribution*	9,508	201	9,709

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

The capital reserve (£29,745,000) and the revenue reserve (£1,624,000) are both distributable reserves. These reserves total £31,369,000, representing a decrease of £2,275,000 in the period since 31 December 2017. 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 £31,369,000 shown above, £1,423,000 relates to interest and dividends receivable from 2019 onwards and £20,237,000 to cancelled share premium which becomes distributable from 1 January 2019 onwards (see below).

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

	£000
1 January 2019	12,995
1 January 2020	3,565
1 January 2021	3,677
Cancelled share premium not yet distributable	20,237

UNAUDITED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2018

	Notes	Unaudited 6 months ended 30 June 2018 £000	Unaudited 6 months ended 30 June 2017 £000	Audited year ended 31 December 2017 £000
Profit before taxation		1,721	772	2,069
Decrease in trade and other payables		(176)	(95)	(45)
(Increase) decrease in trade and other receivables		(81)	83	73
Gains on disposal of investments		(65)	(600)	(40)
Gains on investments held at fair value		(1,616)	(221)	(2,209)
Capitalised interest and dividends		-	-	(59)
Net cash outflow from operating activities		(217)	(61)	(211)
Cash flows from investing activities				
Purchase of financial assets at fair value through profit or loss	6	(5,534)	(571)	(2,371)
Proceeds from sale of financial assets at fair value through profit or loss	6	931	1,770	3,479
Deferred consideration		-	-	34
Cash maturing from fixed term deposit		-	1,052	1,049
Net cash (outflow) inflow from investing activities		(4,603)	2,251	2,191
Cash flows from financing activities				
Issue of ordinary shares		4,380	4,230	4,230
Costs of ordinary share issues*		(126)	(153)	(166)
Purchase of own shares		(544)	(399)	(814)
Share premium cancellation costs		-	-	(10)
Dividends paid	4	(1,253)	(1,186)	(2,365)
Net cash inflow from financing activities		2,457	2,492	875
Net (decrease) increase in cash and cash equivalents		(2,363)	4,682	2,855
Cash and cash equivalents at the beginning of the period		15,681	12,826	12,826
Cash and cash equivalents at the end of the period		13,318	17,508	15,681

*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 2017 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2017. 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 2017. 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 2017 were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Where guidance set out in the SORP is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

Standards, amendments to standards and interpretations have been issued which are effective for the current reporting period. These include IFRS 9, IFRS 15, and amendments to IFRS 2 and IFRS 10. The Company has carried out an assessment and considers that these standards, amendments and interpretations do not affect the Company's accounting policies, results or net assets. In particular the Company is able to continue to classify its investments at fair value through profit and loss under IFRS 9, and consequently does need to apply the impairment model.

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 2018 the Company held cash balances and fixed term deposits with a combined value of £15,306,000. 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 2018 £000	Unaudited 6 months ended 30 June 2017 £000
Income from investments		
- Dividends from unquoted companies	263	151
- Dividends from AIM quoted companies	8	6
	271	157
- Interest on loans to unquoted companies	527	525
Income from investments held at fair value through profit or loss	798	682
Interest on bank deposits	61	59
	859	741

3 Taxation

	Unaudited 6 months ended 30 June 2018			Unaudited 6 months ended 30 June 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	484	1,237	1,721	372	400	772
Profit before taxation multiplied by the blended standard small company rate of corporation tax in UK of 19.0% (2017: 19.25%)	92	235	327	72	77	149
Effect of:						
UK dividends received	(51)	-	(51)	(30)	-	(30)
Non-taxable profits on investments	-	(319)	(319)	-	(158)	(158)
Excess expenses	-	43	43	-	39	39
Tax charge (credit)	41	(41)	-	42	(42)	-

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 2018			Unaudited 6 months ended 30 June 2017			Audited Year ended 31 December 2017		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Final dividend for the year ended 31 December 2017 of 1.5p (2016: 1.5p) per ordinary share	265	1,347	1,612	177	1,334	1,511	177	1,334	1,511
Interim dividend for the year ended 31 December 2017 of 1.5p per ordinary share	-	-	-	-	-	-	232	1,277	1,509
	265	1,347	1,612	177	1,334	1,511	409	2,611	3,020
Shares allotted under DRIS			(359)			(326)			(658)
Unclaimed dividends			-			1			3
Dividends paid in the Statement of Cash Flows			1,253			1,186			2,365

An interim dividend of 1.5 pence per ordinary share, amounting to approximately £1.61 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 £1,721,000 (30 June 2017: £772,000) and 105,882,952 (30 June 2017: 99,223,205) 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 £443,000 (30 June 2017: £330,000) and 105,882,952 (30 June 2017: 99,223,205) 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 £1,278,000 (30 June 2017: £442,000) and 105,882,952 (30 June 2017: 99,223,205) ordinary shares being the weighted average number of ordinary shares in issue during the period.

During the period the Company allotted 655,669 new ordinary shares in respect of its dividend re-investment scheme and 7,366,700 new ordinary shares of 10 pence each under the offer for subscription launched on 11 January 2018, which raised gross proceeds of £4.40 million.

The Company has repurchased 974,500 of its own shares in the period and these shares are held in the capital reserve. The total of 4,980,851 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. Consequently basic and diluted earnings per ordinary share are equivalent at 30 June 2018, 31 December 2017 and 30 June 2017.

6 Financial Assets at Fair Value through Profit or Loss

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

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

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it was included at the beginning of each accounting period. There have been no transfers between these classifications in the period (2017: none).

The change in fair value for the current and previous year is recognised through profit or loss. All items held at fair value through profit or loss were designated as such upon initial recognition.

Valuation of Investments

Initial Measurement: Financial assets are initially measured at fair value. The best estimate of the initial fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

Subsequent Measurement: The International Private Equity and Venture Capital (IPEV) Valuation Guidelines ("the Guidelines") identify six of the most widely used valuation methodologies for unquoted investments. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market-based data in order to derive a fair value.

Full details of the methods used by the Company were set out on page 53 of the financial statements for the year ended 31 December 2017, 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 changes in fair value:** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple:** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.
- **Sales multiples and industry valuation benchmarks:** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

Movements in investments at fair value through profit or loss during the six months to 30 June 2018 are summarised as follows:

IFRS 13 measurement classification	Level 3 Unquoted Investments	Level 1 Quoted Equity Investments	Total Investments
	£000	£000	£000
Opening cost	30,115	1,248	31,363
Opening valuation gain	8,026	1,034	9,060
Opening fair value at 1 January 2018	38,141	2,282	40,423
Additions at cost	5,534	-	5,534
Disposal proceeds	(807)	(124)	(931)
Net loss on disposal	-	(8)	(8)
Change in fair value	1,387	229	1,616
Closing fair value at 30 June 2018	44,255	2,379	46,634
Closing cost	34,843	897	35,740
Closing valuation gain	9,412	1,482	10,894
Closing fair value at 30 June 2018	44,255	2,379	46,634

The net loss on disposal in the table above is £8,000 whereas that shown in the Statement of Comprehensive Income is a profit of £65,000. The difference comprises the gain of £73,000 arising on deferred proceeds in respect of assets which have been disposed of and are not included within the investment portfolio at the period end.

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

IFRS13 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to fair value measurement. Each unquoted portfolio company has been reviewed and both downside and upside alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternative the value of the unquoted investments would be £3,697,000 (8.4 per cent) lower. Using the upside alternative the value would be increased by £3,525,000 (8.0 per cent).

Of the Company's investments, 95 per cent are in unquoted companies held at fair value (31 December 2017: 94 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 £3,133,000 (5.0 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 £3,133,000 (5.0 per cent of net assets).

Of the Company's equity investments, 5 per cent are quoted on AIM (31 December 2017: 6 per cent). A 5 per cent increase in stock prices as at 30 June 2018 would have increased the net assets attributable to the Company's shareholders and the total profit for the period by £119,000 (31 December 2017: £114,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the period by an equal amount.

There have been no individual fair value adjustments downwards during the period that exceeded 5 per cent of the total assets of the Company (31 December 2017: 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 2018	Gain (loss) over opening carrying value	Profit (loss) on original cost
	£000	£000	£000	£000	£000
<i>Unquoted investments</i>					
ACC Aviation (via NewACC (2014) Limited)	615	615	615	-	-
GTK (Holdco) Limited	149	149	149	-	-
Macro Art Holdings Limited	43	43	43	-	-
	807	807	807	-	-
<i>Quoted investments</i>					
Allergy Therapeutics plc	124	351	132	(8)	(227)
	124	351	132	(8)	(227)
Total from disposals in the period	931	1,158	939	(8)	(227)
<i>Revaluation of deferred consideration:</i>					
Selima Holding Company Ltd	73	-	-	73	73
Total from quoted and unquoted investments	1,004	1,158	939	65	(154)

The proceeds in the table above total £1,004,000, whereas that shown in the Statement of Cash Flows is £931,000. The difference comprises deferred consideration which is expected to be received after 30 June 2018.

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 £63,234,000 (30 June 2017 and 31 December 2017: £59,375,000 and £59,056,000 respectively) and 107,538,444 (30 June 2017 and 31 December 2017: 100,634,746 and 100,490,575 respectively) ordinary shares in issue at 30 June 2018.

The 4,980,851 (30 June 2017 and 31 December 2017: 3,255,746 and 4,006,351) treasury shares have been excluded in calculating the number of ordinary shares in issue at 30 June 2018.

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. Consequently, basic and diluted net asset values are equivalent at 30 June 2018, 31 December 2017 and 30 June 2017.

8 Total Return

Total Return per share is calculated on cumulative dividends paid of 57.0 pence per ordinary share (30 June 2017: 54.0 pence per ordinary share and 31 December 2017: 55.5 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.

11. Interim Dividend for the Six Months ended 30 June 2018

Further to the announcement of its interim results for the six months to 30 June 2018, the Company confirms that an interim dividend of 1.5 pence per ordinary share ("Interim Dividend") will be paid on 28 September 2018 to those shareholders on the Company's register at the close of business on 31 August 2018. The ex-dividend date for these dividends will be 30 August 2018.

12. Dividend Re-investment Scheme ("DRIS")

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Interim Dividend is the close of business on 14 September 2018.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

For further information, please contact:

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