

Chairman's Statement

Introduction

In the first half of the financial year the NAV fell from 107.92 pence to 93.84 pence, a fall of 10.3% taking into account the 3 pence dividend distribution in July 2011. During the same period the FTSE AIM All Share Index fell by 17.0%, which whilst the only sensible benchmark, is not wholly comparable as it is has a high proportion of large mining and commodities stocks in which a VCT cannot invest.

Results

At 31 August 2011 the NAV was 93.84 pence which after adjusting for the dividends paid gives a total return of 112.84 pence. The loss per ordinary share for the six month period was 11.06 pence per share (comprising revenue losses of 1.27 pence and capital losses of 9.79 pence).

Investments

The Investment Manager, Hargreave Hale Limited, invested a further £0.6 million in 7 qualifying companies during the period. The Fair Value of qualifying investments at 31 August 2011 was £3.5 million invested in 25 AIM companies and 2 unquoted companies (Mexican Grill Ltd, IS E&P/NV Ltd), the balance was held in non-qualifying AIM stocks and Gilts.

Dividend

A final dividend for the year ended 28 February 2011 of 3 pence was paid on 27 July 2011.

An interim dividend of _____ pence will be paid on _____ 2011, with an Ex date of _____ 2011 and record date of _____ 2011. A final dividend will be considered at the year end.

Buybacks

We are able to maintain our policy of offering our shareholders an efficient exit route through the buyback scheme. No shares were repurchased during the six month period ending 31 August 2011.

Joint Offer for Subscription of Ordinary Shares

The Offer closed on 8 March 2011 and since commencement on 20 March 2010, the Offer resulted in funds being received of £2 million and 1.8 million shares were issued in respect of Hargreave Hale AIM VCT 2 plc.

New Joint Offer for Subscription of Ordinary Shares

On the 9 March 2011 a new joint offer for subscription of Ordinary Shares was opened to raise approximately £2.65 million, in aggregate, in New Ordinary Shares for Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc. The Offer resulted in funds being received of £0.45 million and 0.4 million shares have been issued for Hargreave Hale AIM VCT 2 plc. The offer closed on the 29 July 2011.

Outlook (David to Draft)

Shareholder Communication

The Company's daily share price can be found on various financial websites under the EPIC code 'HHVT', or on our own dedicated website at www.hargreave-hale.co.uk/fund-management/venture-capital-trusts/hargreave-hale-aim-vct-2/share-price-and-nav/

David Hurst-Brown
Chairman

Date:

MANAGER'S REPORT

Market Commentary

The US debt-ceiling negotiation, its subsequent downgrade and further deterioration in the European sovereign debt crisis have weighed heavily on equity markets, particularly when viewed alongside the stream of global weak economic data and subsequent downgrades to economic forecasts. With inflationary pressures beginning to recede and key central banks promising or considering loose monetary policy for an extended period, markets have returned to idea of further quantitative easing as we head into 2012. The FTSE 100 Index has slipped 10.0% in the first half whilst the FTSE AIM All-Share Index dropped 17.0%

Investment Report

In H1 of this financial year, the NAV declined from 107.92 to 93.84. A dividend of 3 pence was distributed in July, taking the net loss for the period to 11.08 pence per share (-10.3%). Total returned since launch fell from 123.92 pence to 112.84 pence. The losses in our portfolio within the period were largely unrealised and totalled -£0.66m, of which -£0.41m was attributable to the qualifying portfolio.

We have made further selective qualifying investments in the financial year to date, adding Ideagen (previously Datum, content management and workflow software), Futura Medical (sexual healthcare pharmaceuticals), Indeed (online property conveyancing service), IS E&P/NV (oil and gas exploration), Microsaic (mass spectrometry) and Myclex (clean water technology). Alterian has become non-qualifying. We ended the first half with 27 qualifying investments. Generally speaking, the flow of potential investments has been strong although it is hard to gauge to what extent recent events will weigh on deal flow since the turmoil coincided with the traditionally quiet month of August. Either way, the VCT remains comfortably through the HMRC defined investment test and ended the period at 84% invested.

After a strong second half last year, the first half of this financial year has appeared challenging for the portfolio across qualifying and non-qualifying investments. Net unrealised losses in the qualifying portfolio totalled £0.41m, equivalent to 6.09 pence per share, with 15 of 27 investments losing ground while 9 increased in value and 3 were unchanged. Lombard Risk was the best performer (1.26 pence per share) with a 76% increase in the share price over the first half following a better than expected trading update, solid full-year results and a significant contract win. Photonstar, a maker of smart LED lighting systems, gained 113% (0.36 pence per share), after the full year results supported the view that a credible turnaround was under way, reinforced by news that the company had secured a substantial exclusive supply agreement and positive half-year trading update. Hardide (-1.67 pence per share), Intercede (-1.13 pence per share), Lidco (-0.98 pence per share) and Electric Word (-0.95 pence per share) were the biggest underperformers. Of these, only Electric Word reported difficult trading. Intercede pared its gains after the company indicated that it would invest in future growth at the expense of short-term profitability whilst Lidco continues to meet market expectations.

Performance in non-qualifying equity investment was disappointing with a loss of 3.69 pence per share unrealised and realised, with Cove (-0.47 pence per share), Egdon Resources (-0.46 pence per share) and Maxima (-0.40 pence per share) leading the fall. Of these, only Maxima released a disappointing update.

Portfolio Structure

We have continued with our strategy of non-qualifying equity investments. We've continued to gradually reduce our weighting to non-qualifying equities in anticipation of weaker markets, down from 19% at the start of the calendar year to 13% by the end of August. Cash increased to £1.16m whilst our fixed income exposure remained static at £0.9m. In total, 32% of the NAV is held in cash or bonds.

Hargreave Hale Limited

Date:

Income Statement for the six month period to 31 August 2011 (unaudited)

	For the six month period to 31 August 2011 (unaudited)		
	Revenue £000	Capital £000	Total £000
Realised gains/(losses) on investments	-	(5)	(5)
Unrealised gains/(losses) on investments	-	(634)	(634)
Income	33	-	33
	-----	-----	-----
	33	(639)	(606)
Management fee	(4)	(11)	(15)
Other expenses	(113)	-	(113)
	-----	-----	-----
	(117)	(11)	(128)
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Profit/(loss) before taxation	(84)	(650)	(734)
Taxation	-	-	-
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Profit/(loss) after taxation	(84)	(650)	(734)
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Earnings/(loss) per share (Note 2)	(1.27)p	(9.79)p	(11.06)p

The total column of this statement is the income statement of the Company. All revenue and capital items in the above statement derive from continuing operations.

Income Statement for the six month period to 31 August 2010 (unaudited)

	For the six month period to 31 August 2010 (unaudited)		
	Revenue £000	Capital £000	Total £000
Realised gains on investments	-	17	17
Unrealised losses on investments	-	(367)	(367)
Income	25	-	25
	-----	-----	-----
	25	(350)	(325)
Management fee	(6)	(17)	(23)
Other expenses	(80)	-	(80)
	-----	-----	-----
	(86)	(17)	(103)
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Profit/(loss) before taxation	(61)	(367)	(428)
Taxation	-	-	-
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Profit/(loss) after taxation	(61)	(367)	(428)
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Earnings/(loss) per share (Note 2)	(1.13)p	(6.79)p	(7.92)p

The total column of this statement is the income statement of the Company. All revenue and capital items in the above statement derive from continuing operations.

Balance sheet as at 31 August 2011 (unaudited)

	31 August 2011 (unaudited) £000	31 August 2010 (unaudited) £000
Fixed assets		
Investments	5,160	4,294
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Current assets		
Prepayments and accrued income	25	98
Cash at bank and on deposit	1,160	825
	-----	-----
	1,185	923
Creditors: amounts falling due within one year		
Accruals and deferred income	(41)	(49)
	-----	-----
Net current assets	1,144	874
	-----	-----
Net assets	6,304	5,168
	-----	-----
Capital and Reserves		
Share capital redemption reserve	1	1
Called up share capital	67	56
Capital reserve - realised	349	(30)
Capital reserve - unrealised	93	(61)
Special reserve	3,774	5,314
Share Premium	2,351	-
Revenue reserve	(331)	(112)
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Equity shareholders' funds	6,304	5,168
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Net asset value per share (Note 4)	93.84p	92.97p

Cash flow statement for the six month period to 31 August 2011 (unaudited)

	2011 £000	2010 £000
Profit/(loss) on ordinary activities before taxation	(725)	(428)
Realised (gains)/losses on investments	(5)	(17)
Unrealised (profit)/losses on investments	634	367
Decrease/(Increase) in debtors	(1)	(35)
(Decrease)/Increase in creditors	(27)	1
Net cash (outflow)/inflow from operating activities	(124)	(112)
Financial investment:		
Purchase of investments	(1,268)	(1,123)
Sale of investments	548	929
Net financial investment	(720)	(194)
Dividends paid	(202)	(111)
Cash inflow before management of liquid resources	(1,046)	(417)
Financing		
Purchase of shares for cancellation	-	-
Net Proceeds from issue of share capital	1,086	1,102
Net financing	1,086	1,102
Increase/(Decrease) in cash	40	685

Reconciliation of movements in shareholders' funds for the six month period to 31 August 2011 (unaudited)

	Share Capital £000	Capital Redemption Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Special Reserve £000	Share Premium £000	Revenue Reserve £000	Total £000
At beginning of period	57	1	366	727	3,975	1,275	(247)	6,154
Realised gains on investments	-	-	(5)	-	-	-	-	(5)
Unrealised profit on investments	-	-	-	(634)	-	-	-	(634)
Management fee charged to capital	-	-	(12)	-	-	-	-	(12)
Equity dividends paid	-	-	-	-	(202)	-	-	(202)
Shares repurchased for cancellation	-	-	-	-	-	-	-	-
Profit after taxation for the period	-	-	-	-	-	-	(84)	(84)
Subscription	11	-	-	-	-	1,076	-	1,087
At end of period	68	1	349	93	3,773	2,351	(331)	6,304

Reconciliation of movements in shareholders' funds for the six month period to 31 August 2010 (unaudited)

	Share Capital	Capital Redemption Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Special Reserve	Share Premium	Revenue Reserve	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At beginning of period	45	-	81	306	4,223	-	(51)	4,604
Realised gains on investments	-	-	17	-	-	-	-	17
Unrealised gains on investments	-	-	-	(367)	-	-	-	(367)
Management fee charged to capital	-	-	(17)	-	-	-	-	(17)
Equity dividends paid	-	-	(111)	-	-	-	-	(111)
Shares repurchased for cancellation	-	1	-	-	-	-	-	1
Subscriptions	11	-	-	-	1,091	-	-	1,102
Profit after taxation for the period	-	-	-	-	-	-	(61)	(61)
At end of period	56	1	(30)	(61)	5,314	-	(112)	5,168

Notes to the interim report

1. The accounts of the company are prepared in accordance with Accounting Standards applicable in the United Kingdom. The accounting policies used in preparing this report are consistent with those to be adopted at the year end. All AIM investments are valued at bid price. Unquoted companies are included at fair value. The Company uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The fair value of such assets or liabilities will be reviewed on a 6 monthly basis and more frequently if events occur that could have a material impact on the investment.
2. The loss per ordinary share of 11.06 pence is based on the loss after tax for the period of £734,349 and the weighted average number of ordinary shares in issue over the period of 6,641,632.
3. The results should not be taken as a guide to the results for the financial period ending 28 February 2012.
4. The net asset value per ordinary share at 31 August 2011 of 93.84 pence after deducting the 3 pence dividend paid in July 2011 is based on net assets of £6,304,261 and on 6,718,212 shares, being the number of ordinary shares in issue as at 31 August 2011.
5. The financial information contained in the 31 August 2011 income statement, balance sheet, cash flow statement and reconciliation of movements in shareholders' funds does not constitute full financial statements and has not been audited.

Investment portfolio summary as at 31 August 2011

Qualifying investments	Book Cost £000	Valuation £000	Valuation %
Animalcare Group plc	100	291	5.6
Mexican Grill Ltd (A Pref)	277	277	5.4
EKF Diagnostic	150	243	4.7
Advanced Computer Software plc	100	224	4.3
Lidco Group plc	147	204	4.0
Lombard Risk Management plc	104	196	3.8
Hardide plc	113	188	3.6
Omega Diagnostics Group plc	200	167	3.2
My Celx	150	154	3.0
Intercede Group plc	96	151	2.9
Electric Word plc	185	140	2.7
Fulcrum Utilities Services Ltd	100	135	2.6
In-Deed	117	128	2.5
Marwyn Capital II Ltd	100	115	2.2
Reneuron Group plc	75	113	2.2
Ideagen	100	111	2.2
Microsaic	117	99	1.9
Tristel plc	100	98	1.9
Plastics Capital plc	100	83	1.6
Futura Medical	75	76	1.5
Corac	100	65	1.3
Photonstar	97	46	0.9
Synchronica plc	100	31	0.6
Mexican Grill Ltd (Ord)	31	31	0.6
Saville Holdings plc	151	30	0.6
IS E&P	25	25	0.5
IS NV	25	25	0.5
Optare plc	116	11	0.2
Image Scan Holdings plc	93	9	0.2
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Total qualifying investments	3,242	3,462	67.1

	Book Cost £000	Valuation £000	Valuation %
Non-Qualifying investments			
UK Treasury 2.25% 2014	294	311	6.0
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Total – UK gilts	294	311	6.0
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Nationwide 3.75% 2011	254	252	4.9
Scot Amicable 8.5% 2049	154	152	2.9
Nationwide 7.971% 2049	145	144	2.8
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Total – UK corporate bonds	553	548	10.6
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Craneware	83	98	1.9
Sinclair IS Pharma	100	92	1.8
Instem Life	53	66	1.3
Egdon Resources plc	80	61	1.2
Anglo Pacific plc	67	59	1.2
TMO	50	50	1.0
GW Pharma	52	50	1.0
XP Power	64	47	0.9
Prophotonix	40	43	0.8
Tantalus	37	40	0.8
Skill P&L	50	34	0.7
Agrifarma Brazil Ltd	26	32	0.6
Cohort	20	22	0.4
Encore Oil	30	22	0.4
OMG	31	19	0.4
In-Deed	17	19	0.4
Richoux Group plc	35	18	0.3
Pressure Technologies	19	15	0.3
Westmount Energy Ltd	16	11	0.2
Optare plc	12	10	0.2
Maxima	36	7	0.1
Acta Spa	41	7	0.1
Fulcrum Utilities Services Ltd	5	4	0.1
Marwin Value Inv Ltd B	5	4	0.1
Animal Care	3	3	0.1
Lombard Risk	3	2	0.0
Marwyn Capital II	1	1	0.0
Intercede	2	1	0.0
Omega Diagnostics	2	1	0.0
Futura Medical	1	1	0.0
Electric Word	1	1	0.0
Microsaic	1	1	0.0
Corac	1	0	0.0
Photonstar	2	0	0.0
EKF Diagnostic	0	0	0.0
Hardide	0	0	0.0
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Total – non-qualifying equities	984	840	16.3
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Total – non-qualifying investments	1,831	1,699	26.9