

Half-yearly Financial Report  
(unaudited) for the  
six months to 30 June 2011

**Kings Arms Yard VCT 2 PLC**  
(formerly SPARK VCT 2 plc)

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## Company information

<b>Company number</b>	4063505
<b>Directors</b>	Robert Wright, Chairman Thomas Chambers Alan Lamb
<b>Manager, company secretary and registered office</b>	Albion Ventures LLP 1 King's Arms Yard London EC2R 7AF
<b>Registrar</b>	Capita Registrars Limited Northern House Penistone Road Fenay Bridge Huddersfield HD8 0LA
<b>Auditor and Taxation adviser</b>	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
<b>Legal adviser</b>	Travers Smith LLP 10 Snow Hill London EC1A 2AL
<b>Shareholder information</b>	<p>For help relating to dividend payments, shareholdings and share certificates please contact Capita Registrars Limited Tel 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8 30 am – 5 30 pm, Mon-Fri) Email <a href="mailto:ssd@capitaregistrars.com">ssd@capitaregistrars.com</a> Website <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a></p> <p>Shareholders can access holdings and valuation information regarding any of their shares held by Capita Registrars by registering on Capita's website</p> <p>For enquiries relating to the performance of the Fund, please contact Albion Ventures LLP Tel 020 7601 1850 (calls may be recorded, lines are open 9 00 am – 5 30 pm, Mon-Fri) Email <a href="mailto:info@albion-ventures.co.uk">info@albion-ventures.co.uk</a> Website <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a></p>
<b>IFA information</b>	<p>Independent Financial Advisers with questions, please contact Albion Ventures LLP Tel 020 7601 1850 (calls may be recorded, lines are open 9 00 am – 5 30 pm, Mon-Fri) Email <a href="mailto:info@albion-ventures.co.uk">info@albion-ventures.co.uk</a> Website <a href="http://www.albion-ventures.co.uk">www.albion-ventures.co.uk</a></p>

## Investment policy

The Company is a Venture Capital Trust. The new investment policy, approved by shareholders at the General Meeting held on 10 February 2011, is intended to produce a regular and predictable dividend stream with an appreciation in capital value as set out below.

- The Company intends to achieve its strategy by adopting an amended investment policy for new investments which over time will rebalance the portfolio such that approximately 50 per cent of the portfolio comprises an asset-based portfolio of lower risk, ungeared businesses, principally operating in the healthcare, environmental and leisure sectors (the "Asset-Based Portfolio"). The balance of the portfolio, other than funds retained for liquidity purposes, will be invested in a portfolio of higher growth businesses across a variety of sectors of the UK economy. These will range from lower risk, income producing businesses to a limited number of higher risk technology companies (the "Growth Portfolio").
- In neither category would portfolio companies normally have any external borrowing with a charge ranking ahead of the VCT. Up to two thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.
- The Company's investment portfolio will thus be structured to provide a balance between income and capital growth for the longer term. The Asset-Based Portfolio is designed to provide stability and income whilst still maintaining the potential for capital growth. The Growth Portfolio is intended to provide highly diversified exposure through its portfolio of investments in unquoted UK companies.
- Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of 'A' or above.

## Financial calendar

Financial year end	31 December
Interim Report date	30 June
Announcement of interim results for the six months ended 30 June 2011	22 August 2011

## Financial highlights (unaudited)

	Unaudited six months ended 30 June 2011 (pence per share)	Unaudited six months ended 30 June 2010 (pence per share)	Audited year ended 31 December 2010 (pence per share)
<b>Net asset value</b>	<b>21 1</b>	<b>30 0</b>	<b>23 6</b>
<b>Dividends</b>			
Dividends paid during the period	<b>1 0</b>	–	1 0
Cumulative dividend paid to 30 June 2011	<b>8 9</b>	6 9	7 9
<b>Total net asset value return<sup>(1)</sup></b>			
To shareholders of Kings Arms Yard VCT 2 PLC (formerly SPARK VCT 2 plc)	<b>30 0</b>	36 9	31 5
Total net asset value return including tax benefits <sup>(2)</sup>	<b>50 0</b>	56 9	51 5
<b>Total net asset value return to former shareholders of SPARK VCT 3 plc<sup>(3)</sup></b>	<b>37 3</b>	47 3	39 4
Total net asset value return including tax benefits <sup>(2)</sup>	<b>57 3</b>	67 3	59 4

### Notes

- (1) Net asset value plus cumulative dividend per share to ordinary shareholders in the Company since the launch of the Company (then called Quester VCT 4 plc) in November 2000
- (2) Return after 20 per cent income tax relief but excluding capital gains deferral
- (3) Total return to original shareholders in SPARK VCT 3 plc launched in December 2001 (under the name Quester VCT 5 plc) which was merged with the Company (then called Quester VCT 4 plc) in November 2008. The share exchange ratio for former shareholders in SPARK VCT 3 plc was 1.4613. The total return stated is applicable only to subscribers of shares in Quester VCT 5 plc at the time of the launch of the Company in 2001-02. It does not represent the return to subsequent subscribers or purchasers of shares.

## Chairman's statement

### Overview

The interim results for the six month period to 30 June 2011 showed a negative total return of 1.5 pence per share, resulting in a net asset value per share of 21.1 pence per share. The key activities since the start of the year, when the investment management of your VCT was transferred to Albion Ventures, have been the further stabilisation of our current investments and the start of the process towards establishing a lower risk, more diversified portfolio. To this end some £460,000 has been invested in four existing investee companies, while partial exits amounting to £357,000 have been achieved through the sale of the shares in the quoted companies MediGene and Allergy Therapeutics. In addition, subsequent to the half year, £500,000 was realised from the sale of Imagesound plc. Meanwhile a number of investments are under way under your company's new policy as described below.

### Investment performance and progress

The investment portfolio as a whole saw a decline in value of £857,000. The two key underperformers were Antenova, whose reduction in valuation stemmed from a sharp decline in sector quoted trading multiples, and Xtera, where progress to profitability remains slower than expected. Other parts of the portfolio, however, saw stronger progress in trading including UniServity and, despite a cautious view on its valuation, Level Four Software.

Albion Ventures' programme of new investments has now commenced. Two lower risk investments in the environmental and leisure sectors are currently underway which will increase the revenue available to the VCT. Work is also in progress on a number of higher growth opportunities, the first of which, Abcodia, was completed during the first part of the year. This company, which is a joint investment with University College London, owns a library of five million bio-marker samples for the use in development of new drugs.

Set out below is the current distributions of assets by sector as at 30 June 2011.

### Risks and uncertainties

The outlook for the UK and the global economies continue to be the key risk facing your company. Many of our investments operate in international markets where the continuing concerns over debt and currencies seem certain to have an effect on the general business environment. Nevertheless, a number of our companies have strong positions in resilient markets, while the process of rebalancing the portfolio and an increase in lower risk investments, with no bank borrowings, is continuing.

Other risks and uncertainties remain unchanged and are as detailed on pages 18 and 19 of the Annual Report and Financial Statements for the year ended 31 December 2010.

### Proposed merger with Kings Arms Yard VCT PLC

As announced on 16 May 2011, it is proposed that Kings Arms Yard 2 VCT PLC will merge with Kings Arms Yard VCT PLC through a scheme of reconstruction pursuant to section 110 of the Insolvency Act 1986. The merger ratio will be based upon the net asset value per share for the respective companies as at 30 June 2011, adjusted for material movements in the net assets of each company before the effective date and for costs of merger. This will be subject to shareholder approval as detailed in the Company's Circular and the Kings Arms Yard VCT PLC Prospectus which will soon be dispatched to Shareholders. If the appropriate resolutions are passed, the Company will be placed in members' voluntary liquidation and all assets and liabilities transferred to Kings Arm Yard VCT PLC. New shares in Kings Arms Yard VCT PLC in exchange for your current shareholding will be dispatched on 3 October 2011. Based on the net asset values at 30 June 2011, you would receive approximately 1.3152 Kings

## **Chairman's statement** continued

Arms Yard VCT PLC shares for every share you currently now hold in the Company

Full details are to be found in the Company's Circular and Kings Arms Yard VCT PLC Prospectus which will soon be dispatched

### **Related party transactions**

Details of material related party transactions for the reporting period can be found in note 10 of this Half-yearly Financial Report

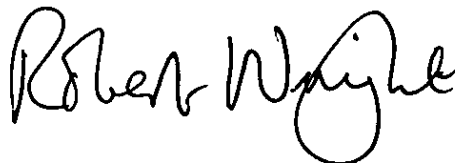
### **Results and dividends**

Your Company recorded a negative total return of 1.5 pence per share to the six months to 30 June 2011 compared to a negative total return of 1 penny per share for the six months to 30 June 2010 and a negative return of 6.4 pence per share for the year to 31 December 2010

**Robert Wright**

Chairman

22 August 2011

A handwritten signature in black ink, reading "Robert Wright". The signature is written in a cursive style with a large, stylized 'R' and 'W'.

## Responsibility statement

The Directors, as listed on page 2 of this Report, are responsible for preparing the Half-yearly Financial Report. The Directors have chosen to prepare this Half-yearly Financial Report for the Company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

In preparing these summarised financial statements for the period to 30 June 2011, we the Directors of the Company, confirm that to the best of our knowledge

- (a) the summarised set of financial statements has been prepared in accordance with the pronouncement on interim reporting issued by the Accounting Standards Board,
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year),
- (c) the summarised set of financial statements gives a true and fair view in accordance with UK GAAP of the assets, liabilities, financial position and profit and loss of the Company for the six months ended 30 June 2011 and comply with UK GAAP and Companies Act 2006 and,

- (d) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein)

The accounting policies applied to the Half-yearly Financial Report have been consistently applied in current and prior periods and are those applied in the Annual Report and Financial Statements for the year ended 31 December 2010.

This Half-yearly Financial Report has not been audited or reviewed by the Auditor.

By order of the Board



**Robert Wright**  
Chairman

22 August 2011



## Portfolio of investments

The following is a summary of fixed asset investments as at 30 June 2011

	Equity % held	Equity % held by AVL <sup>(1)</sup>	Accounting cost <sup>(2)</sup> £'000	Cumulative movement in value £'000	Valuation £'000	Change in value for the six months to 30 June 2011 <sup>(5)</sup> £'000
<b>Unquoted investments</b>						
UniServity Limited	28.7	49.2	1,692	610	2,302	(70)
Workshare Limited	9.5	11.3	2,946	(1,630)	1,316	83
Oxford Immunotec Limited	7.8	7.8	2,937	(1,632)	1,305	3
Elateral Holdings Limited	13.3	36.7	479	756	1,235	21
Level Four Software Holdings Limited <sup>(3)</sup>	12.0	24.9	916	134	1,050	(180)
Cluster Seven Limited <sup>(4)</sup>	5.8	14.8	845	(195)	650	33
Xention Limited <sup>(4)</sup>	6.9	6.9	2,437	(1,829)	608	–
Haemostatix Limited	8.1	21.1	363	195	558	20
Imagesound plc <sup>(3)</sup>	0.5	12.2	489	11	500	24
Celoxica Holdings plc	3.7	3.7	294	83	377	(44)
Vivacta Limited	5.1	13.1	1,121	(781)	340	(42)
Sift Limited <sup>(3)</sup>	8.9	31.4	1,021	(767)	254	13
Perpetuum Limited	4.4	11.4	582	(343)	239	(109)
Antenova Limited	7.0	12.3	1,718	(1,483)	235	(261)
Abcodia Limited	3.6	21.4	125	–	125	–
Xtera Communications Inc	1.3	1.3	3,191	(3,106)	85	(311)
We7 Limited	3.8	13.0	334	(288)	46	(22)
Symetnca Limited	1.0	3.4	44	–	44	(3)
Academia Networks Limited	1.7	5.8	44	–	44	–
Teraview Limited	4.8	9.6	1,064	(1,039)	25	1
Oxonica Limited	0.6	2.1	63	(60)	3	(1)
Skinkers Limited	1.2	5.2	353	(353)	–	(16)
<b>Total unquoted investments</b>			<b>23,058</b>	<b>(11,717)</b>	<b>11,341</b>	<b>(861)</b>
<b>Quoted investments</b>						
Allergy Therapeutics plc (AIM)	0.6	0.9	376	(261)	115	47
Celldex Therapeutics Inc (NASDAQ)	0.3	0.5	1,234	(1,046)	188	(38)
<b>Total quoted investments</b>			<b>1,610</b>	<b>(1,307)</b>	<b>303</b>	<b>9</b>
<b>Total investments</b>			<b>24,668</b>	<b>(13,024)</b>	<b>11,644</b>	<b>(852)</b>
<b>Cash and other net assets</b>					<b>4,672</b>	
<b>Net assets</b>					<b>16,316</b>	

(1) Equity held by Albion Ventures LLP managed companies

(2) Amounts shown as accounting cost represent the acquisition cost in the case of investments originally made by the Company and/or the valuation attributed to the investments acquired from SPARK VCT 3 plc at the date of the merger in 2008 plus any subsequent acquisition costs as reduced in certain cases by amounts written off as representing an impairment in value

(3) Includes Loan Stock

(4) Xention Limited was split into two separate companies in December 2010 and is presented as one investment in the table above for comparative purposes.

(5) As adjusted for additions and disposals during the period

## Summary income statement

		Unaudited six months ended 30 June 2011			Unaudited six months ended 30 June 2010			Audited year ended 31 December 2010		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £ 000	Capital £ 000	Total £'000	Revenue £ 000	Capital £'000	Total £ 000
Losses on valuation of investments at fair value through profit and loss		-	(857)	(857)	-	(1 166)	(1 166)	-	(5 184)	(5 184)
Profit on disposals of investments at fair value through profit and loss		-	40	40	-	748	748	-	770	770
Investment income	3	40	-	40	26	-	26	62	-	62
Investment management fees		(242)	-	(242)	(289)	-	(289)	(345)	-	(345)
Other expenses		(163)	-	(163)	(135)	-	(135)	(269)	-	(269)
<b>Loss on ordinary activities before tax</b>		<b>(365)</b>	<b>(817)</b>	<b>(1,182)</b>	<b>(398)</b>	<b>(418)</b>	<b>(816)</b>	<b>(552)</b>	<b>(4 414)</b>	<b>(4 966)</b>
Tax on ordinary activities		-	-	-	-	-	-	-	-	-
<b>Loss on ordinary activities after tax</b>		<b>(365)</b>	<b>(817)</b>	<b>(1,182)</b>	<b>(398)</b>	<b>(418)</b>	<b>(816)</b>	<b>(552)</b>	<b>(4,414)</b>	<b>(4 966)</b>
Basic and diluted (loss) per share (pence)	5	(0 5)	(1 0)	(1 5)	(0 5)	(0 5)	(1 0)	(0 7)	(5 7)	(6 4)

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2010 and the audited statutory accounts for the year ended 31 December 2010

The accompanying notes on pages 13 to 17 form an integral part of this Half-yearly Financial Report

The total column of this Summary income statement represents the profit and loss account of the Company. The supplementary revenue and capital columns have been prepared in accordance with The Association of Investment Companies' Statement of Recommended Practice. All revenue and capital items in the above statement derive from continuing operations. The Company has only one class of business and derives its income from investments made in shares and securities and from bank deposits.

There are no recognised gains or losses other than the results for the periods disclosed above. Accordingly a Statement of total recognised gains and losses is not required. The difference between the reported loss on ordinary activities before tax and the historical cost profit/(loss) is due to the fair value movements on investments. As a result a note on historical cost profit and losses has not been prepared.

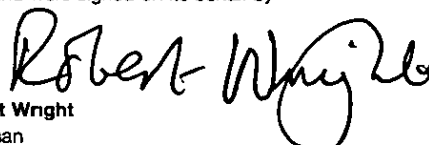
## Summary balance sheet

	Note	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £ 000	Audited 31 December 2010 £ 000
<b>Fixed asset investments</b>		<b>11,644</b>	<b>15,976</b>	<b>12,267</b>
<b>Current assets</b>				
Trade and other debtors		239	1,250	377
Current asset investments		989	5,480	4,407
Cash at bank and in hand	8	3,544	724	1,325
		<b>4,772</b>	<b>7,454</b>	<b>6,109</b>
<b>Creditors amounts falling due within one year</b>		<b>(100)</b>	<b>(247)</b>	<b>(118)</b>
<b>Net current assets</b>		<b>4,672</b>	<b>7,207</b>	<b>5,991</b>
<b>Net assets</b>		<b>16,316</b>	<b>23,183</b>	<b>18,258</b>
<b>Capital and reserves</b>				
Called-up share capital	6	774	773	773
Share premium		351	339	339
Capital redemption reserve		91	91	91
Investment holding losses		(13,022)	(13,124)	(16,899)
Merger reserve		12,615	12,615	12 615
Special reserve		14,016	19,717	19,482
Profit and loss account		1,491	2,772	1,857
<b>Total equity shareholders' funds</b>		<b>16,316</b>	<b>23,183</b>	<b>18,258</b>
<b>Basic and diluted net asset value per share (pence)</b>		<b>21 1</b>	<b>30 0</b>	<b>23 6</b>

Comparative figures have been extracted from the unaudited Half-yearly Financial Report for the six months ended 30 June 2010 and the audited statutory accounts for the year ended 31 December 2010

The accompanying notes on pages 13 to 17 form an integral part of this Half-yearly Financial Report

These financial statements were approved by the Board of Directors, and authorised for issue on 22 August 2011 and were signed on its behalf by

  
Robert Wright  
Chairman

Company number 4063505

10 Kings Arms Yard VCT 2 PLC

## Summary reconciliation of movements in shareholders' funds

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Investment holding losses £'000	Merger reserve £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
<b>1 January 2011 (audited)</b>	<b>773</b>	<b>339</b>	<b>91</b>	<b>(16,899)</b>	<b>12,615</b>	<b>19,482</b>	<b>1,857</b>	<b>18,258</b>
Realisation of prior years' net recognised losses on investments	-	-	-	4,734	-	-	(4,734)	-
Transfer from special reserve to profit and loss account	-	-	-	-	-	(5,466)	5,466	-
Investment holding loss on valuation of investments	-	-	-	(857)	-	-	857	-
Issue of equity (net of costs)	1	12	-	-	-	-	-	13
Loss on ordinary activities after taxation	-	-	-	-	-	-	(1,182)	(1,182)
Dividends paid	-	-	-	-	-	-	(773)	(773)
<b>As at 30 June 2011 (unaudited)</b>	<b>774</b>	<b>351</b>	<b>91</b>	<b>(13,022)</b>	<b>12,615</b>	<b>14,016</b>	<b>1,491</b>	<b>16,316</b>
<b>1 January 2010 (audited)</b>	<b>775</b>	<b>339</b>	<b>89</b>	<b>(12,962)</b>	<b>12,615</b>	<b>20,056</b>	<b>3,117</b>	<b>24,029</b>
Shares purchased for cancellation	(2)	-	2	-	-	(30)	-	(30)
Realisation of prior years' net recognised losses on investments	-	-	-	1,004	-	-	(1,004)	-
Transfer from special reserve to profit and loss account	-	-	-	-	-	(309)	309	-
Investment holding loss on valuation of investments	-	-	-	(1,166)	-	-	1,166	-
Loss on ordinary activities after taxation	-	-	-	-	-	-	(816)	(816)
Dividends paid	-	-	-	-	-	-	-	-
<b>As at 30 June 2010 (unaudited)</b>	<b>773</b>	<b>339</b>	<b>91</b>	<b>(13,124)</b>	<b>12,615</b>	<b>19,717</b>	<b>2,772</b>	<b>23,183</b>
<b>1 January 2010 (audited)</b>	<b>775</b>	<b>339</b>	<b>89</b>	<b>(12,962)</b>	<b>12,615</b>	<b>20,056</b>	<b>3,117</b>	<b>24,029</b>
Shares purchased for cancellation	(2)	-	2	-	-	(30)	-	(30)
Realisation of prior years' net recognised losses on investments	-	-	-	1,247	-	-	(1,247)	-
Transfer from special reserve to profit and loss account	-	-	-	-	-	(544)	544	-
Investment holding loss on valuation of investments	-	-	-	(5,184)	-	-	5,184	-
Loss on ordinary activities after taxation	-	-	-	-	-	-	(4,966)	(4,966)
Dividends paid	-	-	-	-	-	-	(773)	(773)
<b>As at 31 December 2010 (audited)</b>	<b>773</b>	<b>339</b>	<b>91</b>	<b>(16,899)</b>	<b>12,615</b>	<b>19,482</b>	<b>1,857</b>	<b>18,258</b>

The total distributable reserves are £2,485,000 (30 June 2010: £9,365,000, 31 December 2010: £4,440,000), comprising the special reserve and the profit and loss account, less net investment holdings losses.

## Summary cash flow statement

	Note	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
<b>Net cash flow from operating activities</b>	<b>7</b>	<b>(257)</b>	<b>(1,251)</b>	<b>(650)</b>
<b>Taxation</b>				
UK corporation tax received/(paid)		-	-	-
<b>Financial investments</b>				
Purchase of fixed asset investments		(607)	(532)	(854)
Purchase of current asset investments		(985)	-	-
Disposal of fixed asset investments		417	1,867	1,939
Disposal of current asset investments		4,412	209	1,282
Amounts recovered from investments previously written off		-	14	-
<b>Net cash flow from investing activities</b>		<b>3,237</b>	<b>1,558</b>	<b>2,367</b>
<b>Equity dividends paid</b> (net of costs of issuing shares under the Dividend Reinvestment Scheme)		<b>(760)</b>	-	<b>(773)</b>
<b>Net cash flow before financing</b>		<b>2,220</b>	<b>307</b>	<b>944</b>
<b>Financing</b>				
Purchase of own shares		-	(30)	(66)
Costs of issue of share capital		(1)	-	-
<b>Net cash flow from financing</b>		<b>(1)</b>	<b>(30)</b>	<b>(66)</b>
<b>Cash flow in the period</b>	<b>8</b>	<b>2,219</b>	<b>277</b>	<b>878</b>

The accompanying notes on pages 13 to 17 form an integral part of this Half-yearly Financial Report

## Notes to the unaudited summarised financial statements for the six months ended 30 June 2011

### 1 Accounting convention

The Financial Statements have been prepared in accordance with the historical cost convention, except for the measurement of fair value of investments, and in accordance with applicable UK law and accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("SORP") issued by The Association of Investment Companies ("AIC") in January 2009. Accounting policies have been applied consistently in current and prior periods. The accounts are prepared on a going concern basis.

### 2 Accounting policies

#### Fixed asset investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment policy, and information about the portfolio is provided internally on that basis to the Board.

Upon initial recognition (using trade date accounting) investments are designated by the Company as 'at fair value through profit or loss' and are included at their initial fair value, which is cost (excluding expenses incidental to the acquisition which are written off to the profit and loss account).

Subsequently, the investments are valued at 'fair value' which is measured as follows:

- Investments listed on recognised exchanges are valued at their bid prices at the end of the accounting period or otherwise at fair value based on published price quotations.
- Unquoted investments, where there is not an active market, are valued using an appropriate valuation technique in accordance with the International Private Equity and Venture Capital Valuation guidelines. Indicators of fair value are derived using established methodologies including earnings multiples, prices of recent investment rounds, net assets and industry valuation benchmarks. Where the Company has an investment in an early stage enterprise, the price of a recent investment round is often the most appropriate approach to determining fair value. In situations where a period of time has elapsed since the date of the most recent transaction, consideration is given to the circumstances of the investee company since

that date in determining fair value. This includes consideration of whether there is any evidence of deterioration or strong definable evidence of an increase in value. In the absence of these indicators, the investment in question is valued at the amount reported at the previous reporting date. Examples of events or changes that could indicate a diminution include:

- the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;
- a significant adverse change either in the investee company's business or in the technological, market, economic, legal or regulatory environment in which the business operates; or
- market conditions have deteriorated, which may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors.

It is not the Company's policy to exercise control or significant influence over investee companies. Therefore, in accordance with the exemptions under FRS 9 "Associates and Joint Ventures", those undertakings in which the Company holds more than 20 per cent, but less than 50 per cent, of the equity of an investment company and the investment company is not a subsidiary, are not regarded as associated undertakings.

#### Current asset investments

In accordance with FRS 26, units held in funds used for cash management are designated as fair value through profit and loss. These investments are classified as current asset investments as they are investments held for the short term and comparative classification in the Balance sheet and Cash flow statements have been represented accordingly.

#### Gains and losses on Investments

Gains and losses arising from changes in the fair value of the investments are included in the Income statement for the year as a Capital item and are allocated to Investment holding losses.

#### Investment income

Dividends receivable on quoted equity shares are recognised into account on the ex-dividend date. Income receivable on unquoted equity and non equity

## Notes to the unaudited summarised financial statements for the six months ended 30 June 2011 continued

shares and loan notes is recognised when the Company's right to receive payment and expect settlement is established. Fixed returns on non equity shares and debt securities are recognised on a time apportionment basis (including amortisation of any premium or discount to redemption) so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course. Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

### Expenses

All expenses including expenses incidental to the acquisition or disposal of an investment, are accounted for on an accruals basis and are charged wholly to the profit and loss account. Costs associated with the issue of shares are charged to the share premium account. Costs associated with the buy back of shares are charged to the special reserve.

All other expenses including management fees are presented within the Revenue column of the Income statement.

### Taxation

Corporation tax is applied to profits chargeable to corporation tax if any at the applicable rate for the period. The Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments as these items are not subject to tax whilst the Company maintains its Venture Capital Trust status. The Company intends to continue to meet the conditions required for it to hold approved Venture Capital Trust status for the foreseeable future. Deferred tax assets in respect of surplus management expenses are only recognised to the extent that such assets are likely to be recoverable against future taxable profits of the Company.

### Foreign exchange

The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling") which is also the presentational currency of the Company. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each Balance sheet date, monetary items and non-monetary assets and liabilities that are measured at fair value, which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Exchange differences arising on settlement of monetary items and from retranslating at the Balance sheet date of investments and other financial instruments

measured at fair value through profit or loss, and other monetary items are included in the Profit and loss account. Exchange differences relating to investments and other financial instruments measured at fair value are subsequently included in the transfer to the investment holding losses.

### Dividends

Dividends payable to equity shareholders are recognised when they are paid, or have been approved by shareholders at an Annual General Meeting.

## Notes to the unaudited summarised financial statements for the six months ended 30 June 2011 continued

### 3 Investment income

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
<b>Income recognised on investments held at fair value through profit or loss</b>			
UK dividend income	-	1	1
Interest on listed fixed interest securities	1	-	-
Interest on loans to venture capital investee companies	12	16	31
Other income	-	8	23
	<u>13</u>	<u>25</u>	<u>55</u>
<b>Interest recognised on investments held at amortised cost</b>			
Bank deposits	27	1	7
	<u>40</u>	<u>26</u>	<u>62</u>

### 4 Dividends

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Interim dividend of 1 penny per share paid on 24 September 2010 in respect of the year ended 31 December 2010	-	-	773
Final dividend of 1 penny per share paid on 24 June 2011 in respect of the year ended 31 December 2010	773	-	-
	<u>773</u>	<u>-</u>	<u>773</u>

### 5 Basic and diluted return per share

Return per share has been calculated on 77,311,310 Ordinary shares (30 June 2010 77,501,217, 31 December 2010 77,403,665) being the weighted average number of shares in issue for the period



## Notes to the unaudited summarised financial statements for the six months ended 30 June 2011 continued

### 6 Share capital

	Unaudited 30 June 2011 £'000	Unaudited 30 June 2010 £'000	Audited 31 December 2010 £'000
<b>Authorised</b>			
100 000 000 Ordinary shares of 1 penny each (30 June 2010 and 31 December 2010 100 000 000)	1,000	1 000	1 000
<b>Allotted, issued and fully paid</b>			
77,367,856 Ordinary shares of 1 penny each (30 June 2010 and 31 December 2010 77 309 035)	774	773	773

During the period from 1 January to 30 June 2011 the Company issued the following New Ordinary shares of 1 penny each under the terms of the Dividend Reinvestment Scheme Circular dated 18 April 2011

Date of allotment	Number of shares issued	Unaudited issue price (pence per share)	Mid market price on issue date (pence per share)	Net proceeds £'000
24 June 2011	58,821	22.60	9.75	13

No shares were bought back for cancellation by the Company during the period ended 30 June 2011 (30 June 2010 and 31 December 2010 245,000 shares)

### 7 Reconciliation of loss on ordinary activities before taxation to net cash flow from operating activities

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Loss on ordinary activities before tax	(1,182)	(816)	(4 966)
Loss on investments at fair value through profit or loss	817	418	4 414
Decrease/(increase) in debtors	122	(968)	(121)
(Decrease)/increase in creditors	(14)	115	23
Net cash flow from operating activities	(257)	(1,251)	(650)

### 8 Analysis of change in cash during the period

	Unaudited six months ended 30 June 2011 £'000	Unaudited six months ended 30 June 2010 £'000	Audited year ended 31 December 2010 £'000
Opening cash balances	1,325	447	447
Net cash flow	2,219	277	878
Closing cash balances	3,544	724	1,325

## Notes to the unaudited summarised financial statements for the six months ended 30 June 2011 *continued*

### 9 Post balance sheet events

Since 30 June 2011 the Company has completed the following material transaction

- Disposal of Imagesound plc for £500 000 in July 2011

### 10 Related party disclosures

The Manager Albion Ventures LLP, is considered to be a related party by virtue of the fact that it is party to a management agreement with the Company (details disclosed on pages 36 and 37 of the Annual Report and Financial Statements for the year ended 31 December 2010). Albion Ventures LLP has agreed to waive its management and administration fees for the first year to 31 December 2011.

During the period the previous Manager, SPARK Venture Management Limited continued to be entitled to the management and administration fees under the terms of the Termination Agreement and fees totalling £275 000 (30 June 2010: £320 000; 31 December 2010: £408,000) were paid by the Company to SPARK Venture Management Limited.

At the financial period end an amount of £103 000 (31 December 2010: £217,000) reflected prepayments to SPARK Venture Management Limited. At 30 June 2010 an amount of £96 000 was included in accruals in respect of fees due to SPARK Venture Management Limited.

There are no other related party transactions or balances requiring disclosure.

### 11 Going concern

The Board's assessment of liquidity risk remains unchanged since the last Annual Report and Financial Statements for the year ended 31 December 2010 and is detailed on page 19 of those accounts.

The Company has significant cash and liquid resources and the major cash outflows of the Company (namely investments and dividends) are within the Company's control. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors will shortly be proposing a merger of the Company with Kings Arms Yard VCT PLC. If the relevant proposals are passed at the forthcoming General Meeting, the Company will be liquidated soon thereafter. However, the terms of the merger (if approved) would transfer the assets and liabilities of the Company at book value. On this basis the Directors would not expect any material adjustments to these Half-yearly results if a going concern basis was not used for the preparation of these accounts. As the merger proposals have not yet been passed by the shareholders, the Directors have adopted the going concern basis in preparing the accounts in accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council.

### 12 Other information

The information set out in this Half-yearly Financial Report does not constitute the Company's statutory accounts within the terms of section 434 of the Companies Act 2006 for the periods ended 30 June 2011 and 30 June 2010, and is unaudited. The information for the year ended 31 December 2010 does not constitute statutory accounts within the terms of section 434 of the Companies Act 2006 and is derived from the statutory accounts for that financial year, which have been delivered to the Registrar of Companies. The Auditor reported on those accounts: their report was unqualified and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

### 13 Publication

This Half-yearly Financial Report is being sent to shareholders and copies will be made available to the public at the registered office of the Company: Companies House, the National Storage Mechanism and also electronically at [www.albionventures.co.uk](http://www.albionventures.co.uk) under the 'Our Funds' section by clicking on Kings Arms Yard VCT 2 PLC and looking in the Financial Reports and Circulars section for the Half-yearly Financial Report to 30 June 2011.