VCT 2

2010

Half Yearly Report

SPARK
VCT 2 PLC

About **SPARK VCT 2 plc**

The objective of SPARK VCT 2 plc is to provide shareholders with an attractive income and capital return enhanced by tax benefits, by investing in a diverse portfolio consisting largely of unquoted investments.

The venture capital portfolio focuses mainly on technology-related companies in the TMT (technology, media and telecoms) and healthcare sectors.

Dividends paid by SPARK VCT 2 plc, as an approved venture capital trust, are tax free to eligible shareholders, which substantially enhances the effective returns to shareholders. It is the stated policy of the Board to use 50% of the proceeds from the sale of investments to pay dividends. The Board intends that the company should remain as an approved VCT and intends to seek investments in companies which are already revenue generating with a stable business base, and are able to deliver a flow of dividends or be capable of exit within a 3-year period.

Investment in a venture capital trust should be viewed as a high risk, long-term investment. Eligible shareholders are reminded that a sale of their shareholding in SPARK VCT 2 plc may give rise to a loss of any capital gains tax deferral granted at the time of their original subscription.

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Financial highlights

Per ordinary share (pence)	30.06.10	31.12.09	30.06.09
Net asset value	**30.0**	31.0	33.4
Dividends			
Dividend paid (1)	**–**	–	–
Cumulative dividend (2)	**6.9**	6.9	6.9
Total return per share (3)			
SPARK VCT 2 plc	**36.9**	37.9	40.3
Return including tax benefits (5)	**56.9**	57.9	60.3
Total return per 100p invested (4)			
SPARK VCT 3 plc	**47.3**	48.8	52.3
Return including tax benefits (5)	**67.3**	68.8	72.3

(1) Dividend paid in the financial year ended on the date stated.
(2) Cumulative dividends paid by SPARK VCT 2 plc.
(3) Net asset value plus cumulative dividend per share to ordinary shareholders in SPARK VCT 2 plc since the launch of the Company (then called Quester VCT 4 plc) in November 2000.
(4) Total return to former shareholders in SPARK VCT 3 plc, launched in December 2001 (under the name Quester VCT 5 plc), which was merged with SPARK VCT 2 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 launch of the Company in 2001-2. It does not represent the return to subsequent subscribers or purchasers of shares.
(5) Return after 20% income tax relief but excluding capital gains deferral.

The Directors propose an interim dividend of 1.0 pence per share for the year ending 31 December 2010.

The Interim management report comprises the Chairman's statement, the Investment manager's report, the Fund summary and note 8 to the condensed financial statements.

Chairman's statement

In the last annual report we indicated that for 2010 the Company's primary objective would be to ensure that the portfolio remains stable, but that there would now be a greater emphasis on positioning some of the more developed companies for an exit and, provided conditions develop favourably, making a start on turning some of the more significant assets into cash.

We can now report useful progress in this direction.

Realisations have been achieved of two of the more significant investments within the portfolio, Portrait Software plc and Secerno Limited, together producing net proceeds of £1,651,000 (including amounts retained in escrow) and a profit of £687,000 over the equivalent carrying value at 31 December 2010.

With the inclusion of certain other investment sales and cash recoveries, realisations in the half year have produced total proceeds of £1,927,000 (including amounts retained in escrow) and a profit of £748,000 over the previous carrying value. This has enabled the Board to declare an interim dividend of 1.0p per share.

Recent trading results of the more mature companies within the portfolio have been generally encouraging. A number of these companies are now reaching the stage at which they can appropriately be considered as acquisition candidates by major corporates looking for new sources of growth for their own businesses. Members of the management team are alive to these opportunities and are working with the companies concerned to make the best of the opportunities.

Results for the six months ended 30 June 2010

The movement in net assets and net assets per share in the six months to 30 June 2010 is summarised in the table below.

	Venture capital investments £'000	Net current assets £'000	Total £'000	Pence per Share
Net asset value at 31 December 2009	**17,743**	**6,286**	**24,029**	**31.0**
Income	–	26	26	–
Operating expenses	–	(424)	(424)	(0.5)
Net gain on disposal	734	14	748	1.0
Net loss on valuation of investments	(1,166)	–	(1,166)	(1.5)
Net investment	(1,335)	1,335	–	–
Net assets before dividends and share buybacks	**15,976**	**7,237**	**23,213**	**30.0**
Dividends paid	–	–	–	–
Share buybacks	–	(30)	(30)	–
Net asset value at 30 June 2010	**15,976**	**7,207**	**23,183**	**30.0**

The net gain of £748,000 on realisation of investments during the half year (1.0p per share) is offset by net operating expenses (income less operating expenses) of £398,000 (0.5p per share) and a downward movement in valuation of remaining investments of £1,166,000 (1.5p per share), the latter reflecting the stringent approach that has been taken to the further funding of certain early stage investments within the portfolio.

Overall, the net result for the half year is a fall in net assets per share of 3%, from 31.0p at 31 December 2009 to 30.0p at 30 June 2010.

The total return to shareholders from the launch of the Company in November 2000 to 30 June 2010, inclusive of all dividends paid, now amounts to 36.9p per share before taking account of tax reliefs.

The total return to original shareholders in SPARK VCT 3 plc from its launch in December 2001 (under the name Quester VCT 5 plc) to 30 June 2010, inclusive of all dividends paid, amounts to 47.3p per share before taking account of tax reliefs.

Dividend

In the last Chairman's statement we set out the results of the Board's review of the future strategy of the Company, originally announced in January. In relation to dividend policy, it was decided that in future priority should be given to the payment of dividends as and when realisations are achieved. In particular, subject to any tax or regulatory constraints, 50% of the proceeds from any realisations from within the existing venture capital portfolio would be regarded as available for distribution.

The realisations achieved in the half year have enabled the Board to declare an interim dividend of 1.0p per share (a total of £773,000). The dividend will be payable on 24 September 2010 to shareholders on the register on 27 August 2010.

Net proceeds of realisation of £1,154,000 will be retained. It remains the Company's policy to continue to support those of the existing investee companies that are considered to have strong growth prospects, to enable them to develop long enough to allow an optimal realisation.

Outlook

The Board believes that the present portfolio of venture capital investments offers the prospect of significant capital growth from present levels, provided the investee companies can maintain stability and there is no major deterioration in business and financial conditions.

It is encouraging that the realisations achieved in this first half of the year have shown useful gains over the previous carrying values. There is now clear evidence of an improving M&A market and an appetite among major corporates for strategic acquisition opportunities among venture-backed companies.

We are hopeful that it may be possible to announce further progress in realisations by the date of release of the annual report. Any final dividend will be dependent on actual achievement in this respect.

As regards the longer-term future of the Company, the conclusion of the Board's strategy review was that the Company should continue as a Venture Capital Trust and that, within the parameters of its existing investment policy, there should in future be a focus on investments selected with a view to yield as well as capital stability. Accordingly, as and when funds are available for new investment, the SPARK management team will seek investments in companies which are already revenue generating with a stable business base, and are able to deliver a flow of dividends or be capable of exit within a 3-year period. The start of this process will, however, depend on the timing of more substantial realisation proceeds from within the existing portfolio.

Robert Wright
Chairman
12 August 2010

Directors' responsibility statement

The Directors confirm to the best of their knowledge that:

- the condensed financial statements contained within the Half-Yearly Financial Report have been prepared in accordance with the Accounting Standards Board's Statement 'Half-Yearly Financial Reports'; and

- the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R of important events that have occurred during the first six months of the financial year and their impact on the condensed financial statements, and a description of the principal risks and uncertainties for the remainder of the financial year; and

- the condensed financial statements (note 8) include a fair review of the information concerning related parties transactions as required by Disclosure and Transparency Rule 4.2.8R.

The Half-Yearly Financial Report was approved by the Board on 12 August 2010 and the above responsibility statement was signed on its behalf by the Chairman.

Investment manager's report

Over the half year to 30 June 2010 the activity of the Investment Manager has been conducted against the background of the strategy agreed with the Board at the beginning of the year and summarised in the Chairman's statement in the last annual report.

The strategy review undertaken at that time took into account that most of SPARK VCT 2's existing investments had been held in the portfolio for a long time, with successful realisations of investments having been few in number and dividend payments to shareholders having been very limited. At the time of the annual report we said it was too soon to predict the timing of any exits but that the shape of possible exits from a number of companies was starting to become clearer. In line with the new strategy described in the Chairman's statement, the intention would be to give priority to the payment of dividends as and when realisations were achieved.

Under the new strategy, the key points in relation to investment management are:

- It will be the policy to continue to support those of the existing investee companies that are considered to have strong growth prospects, to enable them to develop long enough to allow an optimal realisation;

- As and when funds are available for new investment, the SPARK management team will seek to take advantage of opportunities available at this current stage of the economic cycle, particularly opportunities to participate in later-stage financing rounds of venture-backed companies within the existing sector focus. The aim will be to seek investments in companies which are already revenue generating with a stable business base, and are able to deliver a flow of dividends or be capable of exit within a 3-year period.

Realisations

During the half year significant steps have been taken in the implementation of this strategy, in particular towards the realisation of existing portfolio investments. We are pleased to report two significant and profitable realisations:

- **Portrait Software plc**: this company, specialising in customer interaction optimisation software, was acquired by Pitney Bowes in an agreed takeover offer at 31p per share announced on 10 June 2010 – the sale of SPARK VCT2's shares under the offer and in earlier market transactions produced proceeds of £1,160,000 against a carrying value at 31 December 2009 of £736,000, resulting in a profit of £424,000 in the half year to 30 June 2010;

- **Secerno Limited**: this Oxford-based data security business was sold to Oracle Corporation in a private transaction completed in June – this produced net proceeds of £492,000 (including a proportion retained in escrow), against a carrying value at 31 December 2009 of £229,000, resulting in a profit in the half year to 30 June 2010 of £263,000.

The opportunity has also been taken to realise cash from certain other quoted venture capital investments, with the sale of the entire holding in **Quadnetics Group plc** and part of the holding in **Celldex Therapeutics, Inc**. Overall, proceeds generated from these transactions, together with certain other cash recoveries, have totalled £1,927,000 in the half year to 30 June 2010.

These realisations have enabled the Board to declare an interim dividend of 1.0p per share.

Progress of investments

In the Business review in the last annual report we described SPARK VCT 2's venture capital investments as falling into four categories: quoted venture capital investments and three categories of unquoted investments, namely "maturing" venture capital investments, "developing" venture capital investments and "early stage" investments. Following the realisations referred to above, the proportions that investments in each category represent in the venture capital portfolio by valuation at 30 June 2010 are as follows:

	Percent. of venture capital portfolio by valuation
Quoted and "maturing" venture capital investments: *– companies whose shares are traded on AIM, NASDAQ or Frankfurt Stock Exchange* *– unquoted companies with stable and growing revenue streams, achieving profitable trading or very close to it, and with stable cash positions* examples: Elateral Holdings Limited, Imagesound plc, Sift Group Limited, UniServity Limited, Workshare Limited, Xtera Communications, Inc., and quoted companies Allergy Therapeutics plc (AIM), Celldex Therapeutics, Inc. (NASDAQ) and MediGene AG (Frankfurt)	60.5%
"Developing" venture capital investments: *– unquoted companies with developed business models and growing revenue streams, though still facing uncertainties, and breaking through into cash-flow positive trading* examples: Antenova Limited, Cluster Seven Limited, Level Four Software Limited	12.6%
"Early stage" investments *– unquoted companies still establishing their business model or, in the case of businesses in the life sciences sector, still at the product development stage* examples: Academia Networks Limited, Celona Technologies Limited, Celoxica Holdings plc, Haemostatix Limited, Isango! Limited, Oxford Immunotec Limited, Perpetuum Limited, Vivacta Limited, We7 Limited, Xention Limited	26.9%

The percentage of the venture capital portfolio now represented by quoted and "maturing" venture capital investments provides a reasonably stable base to the portfolio and, taking into account the current business progress of the most significant of the early stage investments, means that the net asset value of SPARK VCT 2 is less exposed than previously to the risks associated with early stage investment.

Significant recent business developments within the portfolio are summarised below:

- **Workshare Limited** continues to enjoy very high market penetration in the legal IT market for its document comparison software. New management has undertaken some significant restructuring, with a particular focus on the sales model and distribution network, reducing the overall level of operating cost and improving profitability, while the company maintains a robust cash position.

- **Xtera Communications, Inc:** this privately-held US company, into which SPARK VCT 2's investment in Azea Networks was merged in 2007, is making successful commercial progress based in part on the technology acquired with Azea. It has recently announced a new contract to upgrade part of Global Crossing's Atlantic crossing network, linking New York and the UK, to meet growing customer demand for broadband services. It has also acquired an additional company in the UK, to reinforce its position in providing high capacity solutions for submarine and terrestrial fibre cable systems.

- **UniServity Limited:** following management changes towards the end of last year and a dramatic reduction in the cost base, financial performance has significantly improved. Sales have remained ahead of budget despite uncertainty about policy changes and public procurement following the change of Government, and profitability is now strong and consistent. After a successful launch of the 'parent portal' product, resources are now being concentrated on completing the build of a new technology platform ready for launch at the beginning of the new year.

- **Oxford Immunotec Limited** has continued to show significant growth in sales, both in the United States and Europe, with the establishment of the company's own analytical laboratory in Massachusetts having proved to be a key step. Details have been announced of the US$25 million Series D financing closed in July 2009, backed by specialist US investors New Leaf Venture Partners and Kaiser Permanente Ventures and bringing their substantial experience in building successful and innovative high-value diagnostics companies, which has put the company in a position of financial strength from which to invest for the future.

- **Elateral Holdings Limited** had another very successful year to 31 March 2010 delivering 17% revenue growth and a substantial improvement in EBITDA margin. New client wins for the year included NetApp and major customers Coca Cola and SAP renewed their contracts, taking additional services and territorial licences at the same time.

- **Level Four Software Limited** has seen sales growth of 35% in its year to 30 June 2010 and has reached profitability: it continues to show impressive growth in the range of its customer contacts within the banking industry for its ATM testing tools business, and potential for further expansion both geographically and into other sectors.

Follow-on funding provided to existing portfolio companies in the half year has been limited to a total of £532,000, including £261,000 advanced to Celona Technologies Limited to provide additional working capital, £199,000 to Oxford Immunotec Limited as the second tranche of the Series D financing referred to above, £57,000 advanced to Sift Group Limited in a loan instrument with an attractive coupon (alongside the company's management and SPARK's syndicate partner) and £15,000 to Haemostatix Limited to support product development.

Against the background of the overall strategy for SPARK VCT 2 referred to above, and with the growing maturity of some of the key investments, members of the SPARK management team are increasingly focused on working with portfolio company managements on positioning the companies as attractive acquisition candidates for major corporates. A number of the companies are now reaching the stage at which a transaction of this type can realistically be planned for some time over the next two years, enabling the businesses concerned to be taken forward to the next stage of growth under new ownership and achieving cash realisations for SPARK VCT 2.

Subject to no deterioration in business and financial conditions, we expect to be able to announce a number of positive developments in this respect by the date of release of the annual report.

Valuation changes

Valuations of the unquoted investments have been determined under the application of the International Private Equity and Venture Capital Valuation Guidelines. The quoted venture capital investments (shares traded on AIM, the Frankfurt stock exchange and NASDAQ) have been valued at their bid prices at 30 June 2010.

A downward revaluation of investments of £1,166,000 has been recorded for the half year, including £948,000 in respect of the early stage investments and £218,000 in respect of quoted venture capital investments.

Principal risks and uncertainties

As a Venture Capital Trust the Company invests in unquoted and AIM-traded UK companies in accordance with its investment policy. In addition to its venture capital porfolio, the Company maintains liquidity balances in the form of cash held for follow-on financing and new venture capital investment and debtors and creditors that arise directly from its operations. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a VCT, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the ways in which they are managed, are described in more detail in the Company's Annual Report and Accounts for the year ended 31 December 2009. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Outlook

Earlier evidence of an improving M&A market is confirmed not only by the transactions completed by SPARK VCT 2 in the year to date but also by transactions seen elsewhere, with major corporates looking for growth now clearly interested in strategic acquisition opportunities among venture-backed companies.

As long as business and financial conditions remain stable, we believe that opportunities should emerge during the remainder of the current year and over 2011 and 2012 for significant realisations and the extraction of value for SPARK VCT 2 shareholders.

This will enable both the distribution of substantial amounts of cash by way of dividend and a start to be made on a programme of investment in new qualifying investments: in line with the new strategy, this will be focused on companies more advanced in their development and representing relatively lower risk opportunities.

SPARK Venture Management Limited
Manager
12 August 2010

Fund summary as at 30 June 2010

	Industry sector	Accounting Cost [1] £'000	Valuation £'000	Equity % held	% of fund by value
Fifteen largest venture capital investments					
Workshare Limited	TMT	2,947	3,076	10.2%	13.3%
Xtera Communications, Inc.	TMT	3,191	1,779	1.3%	7.7%
UniServity Limited	TMT	1,692	1,692	28.7%	7.3%
Oxford Immunotec Limited	Healthcare	2,729	1,545	6.2%	6.8%
Elateral Holdings Limited[2]	TMT	479	1,161	13.3%	5.0%
Level Four Software Limited	TMT	795	795	7.3%	3.4%
Cluster Seven Limited	TMT	845	765	5.8%	3.3%
Vivacta Limited	Healthcare	889	732	4.7%	3.2%
Sift Group Limited	TMT	1,021	704	8.9%	3.0%
Imagesound plc	TMT	489	489	0.5%	2.1%
Xention Limited	Healthcare	2,438	451	6.9%	1.9%
Antenova Limited	TMT	1,718	448	6.2%	1.9%
Celona Technologies Limited	TMT	3,120	409	10.3%	1.8%
Haemostatix Limited	Healthcare	328	328	7.7%	1.4%
MediGene AG *FRANKFURT*	Healthcare	797	325	0.4%	1.4%
		23,478	**14,699**		**63.5%**
Other venture capital investments					
Celldex Therapeutics, Inc. *NASDAQ*	Healthcare	1,233	252	0.3%	1.1%
Allergy Therapeutics plc *AIM*	Healthcare	795	195	0.6%	0.8%
Isango! Limited	TMT	750	188	11.5%	0.8%
Perpetuum Limited	TMT	479	146	4.4%	0.6%
Celoxica Holdings plc[2]	TMT	208	121	3.7%	0.5%
Academia Networks Limited	TMT	44	120	1.7%	0.5%
TeraView Limited	Healthcare	1,064	100	4.8%	0.4%
Other investments: valuations less than £100,000 (5 investments)		1,049	155		0.7%
		5,622	**1,277**		**5.4%**
Total venture capital investments		**29,100**	**15,976**		**68.9%**
Total unquoted venture capital investments		26,275	15,204		65.6%
Total quoted venture capital investments		2,825	772		3.3%
Total investments		**29,100**	**15,976**		**68.9%**
Cash and other net assets		7,207	7,207		31.1%
Net assets		**36,307**	**23,183**		**100.0%**

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

(2) Cost reduced by amounts written off as representing an impairment in value (Celoxica Holdings plc reduction of £1,250,000 and Elateral Holdings Limited of £676,000).

Condensed financial statements (unaudited)

Income statement

	Note	Six months to 30 June 2010 (unaudited) Revenue £'000	Capital £'000	Total £'000	Six months to 30 June 2009 (unaudited) Revenue £'000	Capital £'000	Total £'000	Year to 31 December 2009 (audited) Revenue £'000	Capital £'000	Total £'000
Loss on valuation of investments at fair value through profit or loss	3	**–**	**(1,166)**	**(1,166)**	–	(2,022)	(2,022)	–	(3,950)	(3,950)
Gain on disposal of investments at fair value through profit or loss	3	**–**	**748**	**748**	–	10	10	–	188	188
Income		**26**	**–**	**26**	61	–	61	114	–	114
Investment management fee		**(289)**	**–**	**(289)**	(329)	–	(329)	(512)	–	(512)
Other expenses		**(135)**	**–**	**(135)**	(129)	–	(129)	(260)	–	(260)
Loss on ordinary activities before taxation		**(398)**	**(418)**	**(816)**	(397)	(2,012)	(2,409)	(658)	(3,762)	(4,420)
Tax on loss on ordinary activities		**–**	**–**	**–**	–	–	–	–	–	–
Loss on ordinary activities after taxation		**(398)**	**(418)**	**(816)**	(397)	(2,012)	(2,409)	(658)	(3,762)	(4,420)
Basic and fully diluted loss per share	4	**(0.5)p**	**(0.5)p**	**(1.0)p**	(0.5)p	(2.6)p	(3.1)p	(0.9)p	(4.8)p	(5.7)p

The 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.

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 gains and losses for the period other than those passing through the income statement of the Company.

The accompanying notes are an integral part of this statement.

Balance sheet

	Notes	30 June 2010 (unaudited) £'000	31 December 2009 (audited) £'000	30 June 2009 (unaudited) £'000
Fixed assets				
Investments at fair value through profit or loss	5	**15,976**	17,743	19,045
Current assets				
Debtors		**1,250**	282	903
Cash at bank		**6,204**	6,136	6,310
		7,454	6,418	7,213
Creditors: amounts falling due within one year		**(247)**	(132)	(158)
Net current assets		**7,207**	6,286	7,055
Net assets		**23,183**	24,029	26,100
Capital and reserves				
Called-up equity share capital		**773**	775	780
Share premium account		**339**	339	339
Capital redemption reserve		**91**	89	84
Special reserve		**19,717**	20,056	20,305
Investment holding losses		**(13,124)**	(12,962)	(11,154)
Merger reserve		**12,615**	12,615	12,615
Profit and loss account		**2,772**	3,117	3,131
Total equity shareholders' funds		**23,183**	24,029	26,100
Net asset value per share	6	**30.0p**	31.0p	33.4p

The accompanying notes are an integral part of this statement.

Condensed financial statements (unaudited) (cont.)

Cash flow statement

	Note	Six months to 30 June 2010 (unaudited) £'000	Year to 31 December 2009 (audited) £'000	Six months to 30 June 2009 (unaudited) £'000
Net cash (outflow)/inflow from operating activities	7	**(1,251)**	159	(175)
Financial investment				
Purchase of venture capital investments		**(532)**	(1,335)	(578)
Sale of venture capital investments		**1,867**	84	–
Amounts recovered from investments previously written off		**14**	235	10
Total net financial investment		**1,349**	(1,016)	(568)
Equity dividends paid		**–**	–	–
Financing				
Buyback of ordinary shares		**(30)**	(146)	(86)
Increase/(decrease) in cash for the period		**68**	(1,003)	(829)
Reconciliation of net cash flow to movement in net funds				
Increase/(decrease) in cash for the period		**68**	(1,003)	(829)
Net funds at the start of the period		**6,136**	7,139	7,139
Net funds at the end of the period		**6,204**	6,136	6,310

The accompanying notes are an integral part of this statement.

Net funds comprise cash at bank and on short-term deposit.

Reconciliation of movements in shareholders' funds

	Called-up equity Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Investment holding losses £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
Six months to 30 June 2010								
At 1 January 2010	775	339	89	20,056	(12,962)	12,615	3,117	24,029
Shares purchased for cancellation	(2)	–	2	(30)	–	–	–	(30)
Realisation of prior years' net unrealised losses on investments	–	–	–	–	1,004	–	(1,004)	–
Transfer from special reserve to profit and loss account	–	–	–	(309)	–	–	309	–
Investment holding losses on valuation of investments	–	–	–	–	(1,166)	–	1,166	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(816)	(816)
Dividends	–	–	–	–	–	–	–	–
At 30 June 2010	**773**	**339**	**91**	**19,717**	**(13,124)**	**12,615**	**2,772**	**23,183**
Year to 31 December 2009								
At 1 January 2009	785	339	79	21,196	(9,937)	12,615	3,518	28,595
Shares purchased for cancellation	(10)	–	10	(146)	–	–	–	(146)
Realisation of prior years' net unrealised losses on investments	–	–	–	–	925	–	(925)	–
Transfer from special reserve to profit and loss account	–	–	–	(994)	–	–	994	–
Investment holding losses on valuation of investments	–	–	–	–	(3,950)	–	3,950	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(4,420)	(4,420)
Dividends	–	–	–	–	–	–	–	–
At 31 December 2009	**775**	**339**	**89**	**20,056**	**(12,962)**	**12,615**	**3,117**	**24,029**
Six months to 30 June 2009								
At 1 January 2009	785	339	79	21,196	(9,937)	12,615	3,518	28,595
Shares purchased for cancellation	(5)	–	5	(86)	–	–	–	(86)
Realisation of prior years' net unrealised losses on investments	–	–	–	–	805	–	(805)	–
Transfer from special reserve to income statement	–	–	–	(805)	–	–	805	–
Investment holding losses on valuation of investments	–	–	–	–	(2,022)	–	2,022	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(2,409)	(2,409)
Dividends	–	–	–	–	–	–	–	–
At 30 June 2009	**780**	**339**	**84**	**20,305**	**(11,154)**	**12,615**	**3,131**	**26,100**

Notes

1 The Financial Statements have been prepared under the historical cost convention, except for the measurement at fair value of investments, and in accordance with applicable UK accounting standards and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009.

2 The total reserves available for distribution by way of a dividend is £9,365,000 (31 December 2009: £10,211,000, 30 June 2009: £12,282,000), being made up of the Special reserve and Profit and loss account less Investment holding losses.

3 The overall gain/(loss) on investments at fair value through profit or loss disclosed in the profit and loss

	Six months to 30.06.10 (unaudited) £'000	Six months to 30.06.09 (unaudited) £'000	Year to 31.12.09 (audited) £'000
Loss on valuation of investments at fair value through profit or loss:			
Net loss on valuation of investments	**(1,166)**	(2,022)	(3,950)
Write-off of investments	**–**	–	–
	(1,166)	(2,022)	(3,950)
Gain/(loss) on disposal of investments at fair value through profit or loss:			
Net gain/(loss) on disposal	**734**	–	(47)
Recoveries made in respect of investments previously written off	**14**	10	235
	748	10	188
	(418)	(2,012)	(3,762)

'Net gain/(loss) on disposal' represents the difference between proceeds received and the carrying values of those investments sold during the period.

4 The revenue loss per share of 0.5p (30 June 2009: loss 0.5p and 31 December 2009: loss 0.9p) is based on the revenue loss on ordinary activities after tax of £398,000 (30 June 2009: loss £397,000 and 31 December 2009: loss £658,000) and on the weighted average number of ordinary shares in issue during the period of 77,501,217 (30 June 2009: 78,023,615 and 31 December 2009: 77,968,095).

The capital loss per share of 0.5p (30 June 2009: loss 2.6p and 31 December 2009: loss 4.8p) is based on the capital loss on ordinary activities after tax of £418,000 (30 June 2009: loss £2,012,000 and 31 December 2009: loss £3,762,000) and on the weighted average number of ordinary shares in issue during the period of 77,501,217 (30 June 2009: 78,023,615 and 31 December 2009: 77,968,095).

The total loss per share of 1.0p (30 June 2009: loss 3.1p and 31 December 2009: loss 5.7p) is based on the loss on ordinary activities after tax of £816,000 (30 June 2009: loss £2,409,000 and 31 December 2009: loss £4,420,000) and on the weighted average number of ordinary shares in issue during the period of 77,501,217 (30 June 2009: 78,023,615 and 31 December 2009: 77,968,095).

5 Movements in investments during the six months ended 30 June 2010 are as follows:

	Venture capital investments £'000
Cost at 1 January 2010	30,705
Investment holding losses at 1 January 2010	(12,962)
Valuation at 1 January 2010	17,743
Movements in the period:	
Purchases at cost	532
Disposals	
– proceeds	(1,867)
– net gains on disposal	734
Net loss on valuation of investments	(1,166)
Valuation at 30 June 2010	**15,976**
Book cost at 30 June 2010	29,100
Investment holding losses at 30 June 2010	(13,124)
Valuation at 30 June 2010	**15,976**

Amounts shown as cost represent acquisition cost, less any reduction made on account of impairment in value.

6 The net asset value per share as at 30 June 2010 of 30.0p (31 December 2009: 31.0p and 30 June 2009: 33.4p) is based on net assets of £23,183,000 (31 December 2009: £24,029,000 and 30 June 2009: £26,100,000) divided by the 77,309,035 ordinary shares in issue as at that date (31 December 2009: 77,554,035 and 30 June 2009: 77,990,533). There is no dilution effect in respect of the period ended 30 June 2010 (31 December 2009: nil, 30 June 2009: nil).

7 Reconciliation of operating loss to net cash flow from operating activities

	Six months to 30.06.10 (unaudited) £'000	Year to 31.12.09 (audited) £'000	Six months to 30.06.09 (unaudited) £'000
Loss on ordinary activities	**(816)**	(4,420)	(2,409)
Loss on investments at fair value through profit or loss	**418**	3,762	2,012
(Increase)/decrease in debtors	**(968)**	1,082	461
Increase/(decrease) in creditors	**115**	(265)	(239)
Net cash (outflow)/inflow from operating activities	**(1,251)**	159	(175)

8 Spark Investors Limited (a fellow subsidiary of the Manager), of which JR Patel is a director, may from time to time be eligible to receive transaction fees and/or directors' fees from investee companies. During the period to 30 June 2010, fees of £12,000 attributable to the investments of the Company were received pursuant to these arrangements (30 June 2009: £12,000, 31 December 2009: £23,000).

During the six months to 30 June 2010 there were no transactions by Directors in shares of companies in which the Company has invested (31 December 2009: none; 30 June 2009 none)

9 This Half Yearly Financial Report, has been neither audited nor reviewed by the Company's auditors and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the period ended 31 December 2009 have been delivered to the Registrar of

Notes (cont.)

Companies and received an audit report which was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain any statements under Section 498(2) and (3) of the Companies Act 2006.

10 Interim management statements relating to the first and third quarters of the financial year will be released via the Regulatory News Service on or shortly before 18 May and 18 November each year.

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