SPARK VCT 2 PLC

Half Yearly Financial Report 2009

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. From time to time the portfolio may also include quoted equities and fixed interest securities.

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.

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.

Financial highlights

Per ordinary share (pence)	30.06.09	31.12.08	30.06.08
Net asset value	33.4	36.4	44.3
Dividends			
Dividend paid (1)	–	1.0	1.0
Cumulative dividend (2)	6.9	6.9	6.9
Total return per share (3)			
SPARK VCT 2 plc	40.3	43.3	51.2
Return including tax benefits (5)	60.3	63.3	71.2
Total return per 100p invested (4)			
Original investors in SPARK VCT 3 plc	52.3	56.7	65.4
Return including tax benefits (5)	72.3	76.7	85.4

(1) Dividend paid in the financial period ended on the date stated.
(2) Cumulative dividends paid by SPARK VCT 2 plc.
(3) Net asset value plus cumulative dividend per share to original 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 do not recommend an interim dividend.

The Interim management report comprises the Chairman's statement, the Investment manager's report, the fund summary and note 7 to the condensed financial statements.

Chairman's statement

Overview

The Company's principal objective for 2009 has been to ensure that the portfolio remains stable. Against this background, it gives some satisfaction to be able to report that the emphasis placed by the Manager on ensuring appropriate cost control and management of cash resources within the portfolio companies appears to have been successful so far in enabling companies to survive the recession.

In this first half of 2009, the commercial performance of businesses within the portfolio has generally been 'on plan' following the downward revision to expectations at the end of last year. The development stage companies, which have reached substantial revenue generation and are cash-flow positive, have in most cases shown a satisfactory performance despite the recession. The recent trading results of Elateral Holdings Limited are most encouraging.

Among the early stage venture capital investments that are beginning to show a degree of maturity, progress has generally been in line with expectations and in a number of cases gives cause for greater confidence in the prospect of an ultimately thriving business and a successful investment return. Cases in point are Oxford Immunotec Limited and Celona Technologies Limited.

A number of the early stage companies in the TMT sector in which investment has been made more recently have been impacted by the recession, with initial sales progress being slower than anticipated. Where the Manager has judged the companies nevertheless to have good long-term prospects, management support and, where necessary, follow-on funding have been provided. The early stage life sciences companies have made generally good progress in their scientific and technical development. Highlights are set out in the Investment manager's report.

The funding environment for all early stage companies continues to be very uncertain. At present it is difficult to obtain from new investors the additional equity capital needed to support the development of venture-backed companies, and where such finance is available the terms on which it is offered tend to involve much reduced pre-money valuations. In accordance with the International Private Equity and Venture Capital Valuation Guidelines, where a company has recently raised new funding or is expected to do so in the relatively near future, it has been necessary for the carrying value of the investment at 30 June 2009 to be reduced to reflect the actual or expected terms of the round. As a result, some of the most promising investments in the portfolio are reported at reduced valuations as at 30 June 2009, as compared with last year end.

Overall, a valuation reduction of £2,022,000 has been recorded for the half year in respect of venture capital investments, including a net reduction of £2,151,000 for the unquoted investments and a net appreciation in value of £129,000 for the quoted investments. Details of the main valuation changes are given in the Investment manager's report.

Results for the six months ended 30 June 2009

The movement in net assets and net assets per share in the six months to 30 June 2009 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 2008	**20,489**	**8,106**	**28,595**	**36.4**
Income	–	61	61	0.1
Operating expenses	–	(458)	(458)	(0.6)
Net gain on disposal	10	–	10	–
Net loss on revaluation of investments	(2,022)	–	(2,022)	(2.6)
Net investment by the Company	568	(568)	–	–
Net assets before dividends and share buy-backs	**19,045**	**7,141**	**26,186**	**33.3**
Dividend paid	–	–	–	–
Share buy-backs	–	(86)	(86)	0.1
Net asset value at 30 June 2009	**19,045**	**7,055**	**26,100**	**33.4**

As a result of the valuation changes and the impact of net operating costs, net assets per share, before taking account of share buy-backs, fell by some 8% in the half year, from 36.4p at 31 December 2008 to 33.5p at 30 June 2009.

The total return to shareholders from the launch of the Company in November 2000 to 30 June 2009, inclusive of all dividends paid, now amounts to 40.5p 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 2009, inclusive of all dividends paid, amounts to 52.6p per 100p originally invested, before taking account of tax reliefs.

In the absence of realisations of investments during the half year, the Board does not recommend an interim dividend.

Outlook

The environment for achieving exits from venture capital investments continues to be very difficult and market conditions are not conducive to the achievement of satisfactory sale prices for even the most promising businesses. Against this background, and given the recessionary economic conditions, the Company's financial resources are being concentrated on the development of existing portfolio companies. It has retained a substantial amount of cash, which is available for this purpose. In order to maintain flexibility in the application of resources, the Board will seek to minimise the level of share buy-backs.

A cautious approach is being taken to the consideration of new investment opportunities, pending greater visibility on the availability of cash from realisation of existing investments.

For the year as a whole, it would at this stage be unwise to indicate any expectation of a positive return for shareholders, either in the form of a dividend or capital growth. Nevertheless the approach taken by the Manager appears to have been successful so far in enabling companies to survive the recession. In recent months it has been encouraging to see tangible progress in the development of some of the key companies, with improving sales and order books and the prospects of an improving M&A market.

The Company has suffered from difficult times over the last two or three years and shareholders have seen a substantial decline in net asset value per share. A good deal of patience will still be required, but the Board believes there are now grounds for cautious optimism over the longer-term prospects.

In the last Annual report we indicated the Board would be reviewing the future direction of the Company so as to ensure that returns, when they arise, are delivered to shareholders in the most effective way, while at the same time ensuring that the ongoing activities of the Company are appropriately funded. Shareholders should expect to receive a further communication on this before the year end.

SPARK Ventures plc, the parent company of the Company's manager, SPARK Venture Management Limited, recently announced a proposal for a management buyout of its investment fund management business, which includes the contract for the provision of investment management services to the Company. SPARK Ventures plc also announced proposals for a change to its investment strategy, including the cessation of new investments on its own account. The latter proposals have been approved by its shareholders but the vote to approve the proposed buyout of its fund management business was adjourned. Following third party expressions of interest in acquiring SPARK Ventures plc it has also entered into an offer period. Presently, the outcome of these developments is uncertain. Your Board continues to monitor the situation closely, with a view to ensuring that the interests of shareholders in the Company are best served. We will update shareholders further once we are in a position to do so.

Board

With much regret, we have recently accepted the resignation from the Board of Patrick Seely, who has stepped down for reasons of a family illness with effect from 19 August 2009.

Having previously served as a director of SPARK VCT 3 plc, Patrick became a director of the Company upon completion of the merger in November 2008. Over the relatively brief period of his appointment, Patrick has given wise advice at all times and made a most valuable contribution to the Company's affairs. I would like to express the Board's warmest thanks to him.

Robert Wright
Chairman
21 August 2009

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 7) 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 21 August 2009 and the above responsibility statement was signed on its behalf by the Chairman.

Investment manager's report

Over the six months to 30 June 2009, members of the SPARK management team have continued to be focused on working with the portfolio companies, with a particular emphasis on cost control and rates of cash burn, against the background of the risk of slower than expected revenue growth and the reduced availability of venture capital finance.

Generally, the commercial performance of businesses within the portfolio has been 'on plan' following the downward revision of expectations at the end of last year. However, the economic and therefore funding environment continues to be very uncertain. Even where business development has been progressing well, there has been greater difficulty in obtaining from new investors the additional equity capital needed to support the development of venture-backed companies, and where such finance is available the terms on which it is offered tend to involve substantially reduced pre-money valuations. As a result, all but one of the valuation movements reported for the six months have been downward, and there has been increasing pressure for additional equity capital to be provided by the Fund and other existing investors.

Against this background, it is important that the Fund retains resources to continue developing the value of the more promising portfolio companies and to maintain its position in follow-on funding rounds.

With the M&A market effectively being closed, we continue to believe that achievement of significant profitable exits will not be possible before 2011 at the earliest. There were no realisations during the six months to 30 June 2009.

In view of the above, and given the currently poor visibility on the generation of cash proceeds from realisations, no new investments were made during the six months to 30 June 2009.

Progress of investments

Significant business developments within the portfolio are summarized below:

- **Celldex Therapeutics, Inc.** has recently announced agreement to acquire CuraGen Corporation, another NASDAQ-listed company with a portfolio of oncology-focused antibodies complementary to Celldex's existing targeted immunotherapy platform. This transaction, which is due to complete in the third quarter, also provides cash resources to enable Celldex to advance its clinical development programmes into 2012.

- **Celona Technologies Limited** has now begun to see real progress in winning contracts from major telecoms companies and others for its data migration software. Recent contracts have been won and negotiated in much shorter timeframes. Revenues in the year to March 2009 showed a fivefold increase over the previous year, and current contracts already commenced will deliver a substantial proportion of budgeted revenues in the current year.

- **Elateral Limited** had an excellent year to 31 March 2009 delivering 44% revenue growth, ahead of budgeted expectations. The company won a number of new customer contracts including Ciena, Linksys, NetApp, Toyota and Symantec. At the same time, it renewed and extended its relationship with a number of existing customers including SAP, Coca Cola and New Balance and celebrated its 10th year in partnership with British Telecom.

- **Isango! Limited** an early stage online travel website company offering users an authoritative source of travel experiences such as holiday tours, sightseeing, attractions and activities, was impacted in autumn 2008 by the downturn in the travel sector. More recently, while revenues have improved somewhat and the company has recently launched its new website which broadens the range of its travel and holiday offering, growth continues to be slower than had been expected.

- **Oxford Immunotec Limited** has been building its marketing effort in the United States following the July 2008 grant of FDA approval for its innovative diagnostic test for tuberculosis, T-SPOT®.*TB*. The new test has been well received by clinicians. With the benefit of feedback from the initial phase of the marketing a new business model, using a new laboratory to process the tests, is being adopted and should help accelerate sales growth. Very recently, the company has secured additional funding (see 'Follow-on investments' below) which will support this next phase of its development.

- **UniServity Limited** is close to signing its first sales in the US market which would be a major step in the development of the business, particularly as the number of new contracts currently coming up for tender in the UK is low. The company is awaiting the results of a trial in China, following the framework agreement for the promotion of the company's web-based learning platform in that country.

- **Vivacta Limited**, which specializes in point-of-care diagnostic tests, announced the successful completion of development of its first test, for TSH (thyroid function) together with prototype commercial readers. This has triggered the raising of a new financing round (see 'Follow-on investments' below) which it is expected will fund the company through to regulatory approval of the TSH test.

In relation to **Gemini Holdings Limited**, the fresh milestones set by the SPARK management team (following the company's initial difficulties) were not met. The decision was therefore taken to provide no further support for this company and to seek to recover as much as possible of the cash invested.

Follow-on investments

The six months to 30 June 2009 saw significant follow-on investment in five companies:

Company	Sector	£'000
Follow-on investments completed in the six months to 30 June 2009:		
Celona Technologies Limited	TMT	81
Secerno Limited	TMT	82
Skinkers Limited	TMT	37
Xention Limited	Healthcare	244
Xtera Communications, Inc.	TMT	123
Other		11
		578

The amounts invested during the six months to 30 June 2009 in **Celona Technologies Limited** and **Xention Limited** represented the second tranches of funding originally agreed in March 2008 and December 2008 respectively, as referred to in the last Annual report.

The additional funding of **Secerno Limited**, which specializes in the supply of software and appliances to protect against internal and external threats to databases, has been provided to support its market development phase. This followed an earlier follow-on round in mid-2008 but at a lower valuation (anticipated in the financial statements at 31 December 2008). **Skinkers Limited**, a software company delivering information broadcast solutions to large enterprises, faced a similar requirement for additional finance, as its sales cycle had been impacted by the downturn in the financial services sector. The Fund contributed a modest amount in a follow-on round at a significantly reduced valuation, as part of arrangements which also involved the spin-off of the smaller consumer activity (Livestation) and the focusing of the company on its mainstream activities.

In the case of **Xtera Communications, Inc.** the follow-on investment, made alongside a range of US and other syndicate partners, reflected a requirement for additional equity capital as a result of the credit crunch, with a reduction in the availability of trade credit. Participation by the Fund in this round has served to protect the value of its existing investment.

Additionally, agreement has been reached in three cases for follow-on investment to be completed during the current quarter:

Company	Sector	£'000
Follow-on investments committed, for completion in the quarter to 30 September 2009:		
Oxford Immunotec Limited	Healthcare	534
UniServity Limited	TMT	117
Vivacta Limited	Healthcare	91
		742

In relation to **Oxford Immunotec Limited**, the Fund has committed to a further investment as part of an externally led round: reflecting the current market conditions in venture capital generally, the terms involve a reduction in the pre-money valuation attributed to this investment. In the case of **Vivacta Limited**, the Fund has committed its share of a new round structured as an extension of the Series B round completed in November 2007. The Fund has also agreed to provide bridge finance to **UniServity Limited** ahead of a third-party funding round being planned for later in the year.

Valuation changes

The valuations of the unquoted investments have been reviewed as at 30 June 2009 on the basis of the International Private Equity and Venture Capital Valuation Guidelines, having regard mainly to (i) prices of recent financing rounds and/or the terms of financing rounds expected in the relatively near future, (ii) earnings multiples and (iii) industry valuation benchmarks and/or M&A valuation criteria.

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 2009.

Overall, a valuation reduction of £2,022,000 has been recorded for the half year, including a net valuation reduction of £2,151,000 in respect of unquoted venture capital investments and a net appreciation of £129,000 in respect of the quoted investments.

As indicated earlier, it is currently very difficult to obtain from new investors the additional equity capital needed to support the development of venture-backed companies, and where such finance is available the terms on which it is offered tend to involve substantially reduced pre-money valuations. Following the International Private Equity and Venture Capital Valuation Guidelines, where a company has recently raised new funding or is expected to do so in the relatively near future, the carrying value of the investment at 30 June 2009 has been reduced to reflect the actual or expected terms of the round. The reductions in the valuation of the holdings in Celona Technologies Limited and Oxford Immunotec Limited have been made for this reason.

Similar considerations have applied in relation to a number of the early stage companies in the TMT sector. Skinkers Limited has recently raised additional finance at a lower valuation. The reductions in the valuations of Isango! Limited and We7 Limited have been made against the background of difficult trading in very tough markets and the upcoming requirement in each company to raise the next round of venture capital finance.

Among the development stage companies, the recent trading results of Elateral Holdings Limited have supported an upward revaluation of the investment on the basis of an earnings multiple.

The net reduction in valuation of unquoted venture capital investments is as follows:

Company	£'000
Celona Technologies Limited	(613)
Elateral Holdings Limited	113
Isango! Limited	(563)
Oxford Immunotec Limited	(596)
Skinkers Limited	(169)
We7 Limited	(167)
Others (3)	(156)
	(2,151)

Movements in valuation of the quoted venture capital investments over the six months were as follows:

Company	£'000
Allergy Therapeutics plc *AIM*	62
Celldex Therapeutics, Inc *NASDAQ*	(144)
MediGene AG *FRANKFURT*	(87)
Portrait Software plc *AIM*	275
Others (3)	23
	129

Outlook

The actions that have been taken to position the portfolio companies to face the problems of the recession appear so far to have achieved their objectives. The combination of a reduced base of operating costs within the companies and, more recently, some signs of improving order books and early signs of potential corporate acquisition interest give grounds for belief that portfolio companies may be witnessing a slowing in the decline of their markets. The progress achieved so far would, however, be vulnerable to setback if there were to be a further loss of confidence within the business community generally.

SPARK Venture Management Limited
Manager
21 August 2009

Fund summary as at 30 June 2009

	Industry sector	Cost[1] £'000	Valuation £'000	Equity % held	% of fund by value
Fifteen largest venture capital investments					
Workshare Limited	TMT	2,947	3,066	10.2%	11.8%
Xention Limited	Healthcare	2,438	2,059	6.9%	7.9%
Xtera Communications, Inc.	Healthcare	3,191	1,779	1.3%	6.8%
UniServity Limited	TMT	1,400	1,400	23.2%	5.4%
Oxford Immunotec Limited	Healthcare	2,388	1,206	6.2%	4.6%
Elateral Holdings Limited[2]	TMT	479	1,161	13.3%	4.4%
Vivacta Limited	Healthcare	798	856	4.7%	3.3%
Level Four Software Limited	TMT	795	795	7.3%	3.0%
Cluster Seven Limited	TMT	845	765	5.8%	2.9%
Antenova Limited	TMT	1,718	659	6.2%	2.5%
Sift Group Limited	TMT	917	600	8.3%	2.3%
MediGene AG *FRANKFURT*	Healthcare	797	529	0.4%	2.0%
Portrait Software plc	TMT	1,186	490	3.3%	1.9%
Imagesound plc	TMT	489	489	0.5%	1.9%
Celona Technologies Limited	TMT	2,708	451	10.3%	1.7%
		23,096	**16,305**		**62.4%**
Other venture capital investments					
Celldex Therapeutics, Inc *NASDAQ*	Healthcare	1,537	423	0.7%	1.6%
Perpetuum Limited	TMT	479	374	4.4%	1.4%
Secerno Limited	TMT	476	351	3.4%	1.3%
Haemostatix Limited	Healthcare	312	312	7.7%	1.2%
Allergy Therapeutics plc *AIM*	Healthcare	795	239	0.6%	0.9%
Isango! Limited	TMT	750	188	6.8%	0.7%
We7 Limited	TMT	334	167	3.4%	0.6%
Skinkers Limited	TMT	354	159	2.9%	0.6%
Quadnetics Group plc	TMT	166	106	0.5%	0.4%
Celoxica Holdings plc	TMT	192	104	3.7%	0.4%
Other investments: valuations less than £100,000[2]		1,708	317		1.2%
		7,103	**2,740**		**10.3%**
Total venture capital investments		**30,199**	**19,045**		**72.7%**
Total unquoted venture capital investments		25,650	17,210		65.9%
Total quoted venture capital investments		4,549	1,835		6.8%
Total investments		**30,199**	**19,045**		**72.7%**
Cash and other net assets		7,055	7,055		27.3%
Net assets		**37,254**	**26,100**		**100.0%**

(1) Amounts shown as cost represent acquisition cost (in the case of investments originally made by the Company) and/or the valuation attributed to the investment at the date of the merger (in the case of investments originally made by SPARK VCT 3 plc), 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.

Condensed financial statements (unaudited)

Income Statement

	Note	Six months to 30 June 2009 (unaudited)			Six months to 30 June 2008 (unaudited)			Twelve months to 31 December 2008 (audited)		
		Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Loss on revaluation of investments at fair value through profit or loss		–	(2,022)	(2,022)	–	(379)	(379)	–	(4,084)	(4,084)
Gain/(loss) on disposal of investments at fair value through profit or loss			10	10		74	74	–	(526)	(526)
Income		61	–	61	129	–	129	235	–	235
Recoverable VAT		–	–	–	–	–	–	400	–	400
Investment management fee		(329)	–	(329)	(283)	–	(283)	(592)	–	(592)
Other expenses		(129)	–	(129)	(187)	–	(187)	(661)	–	(661)
Loss on operating activities		(397)	(2,012)	(2,409)	(341)	(305)	(646)	(618)	(4,610)	(5,228)
Interest payable on loan notes		–	–	–	(3)	–	(3)	(5)	–	(5)
Loss on ordinary activities before taxation		(397)	(2,012)	(2,409)	(344)	(305)	(649)	(623)	(4,610)	(5,233)
Tax on loss on ordinary activities		–	–	–	–	–	–	–	–	–
Loss on ordinary activities after taxation		(397)	(2,012)	(2,409)	(344)	(305)	(649)	(623)	(4,610)	(5,233)
Basic and fully diluted loss per share	3	(0.5)p	(2.6)p	(3.1)p	(0.7)p	(0.7)p	(1.4)p	(1.1)p	(8.3)p	(9.4)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 2009 (unaudited) £'000	31 December 2008 (audited) £'000	30 June 2008 (unaudited) £'000
Fixed assets				
Investments at fair value through profit or loss	4	**19,045**	20,489	18,044
Current assets				
Debtors		**903**	1,364	737
Cash at bank		**6,310**	7,139	2,099
		7,213	8,503	2,836
Creditors: amounts falling due within one year		**(158)**	(397)	(331)
Net current assets		**7,055**	8,106	2,505
Creditors: amounts falling due in over one year		**–**	–	(99)
Net assets		**26,100**	28,595	20,450
Capital and reserves				
Called-up share capital		**780**	785	462
Share premium account		**339**	339	339
Capital redemption reserve		**84**	79	72
Special reserve		**20,305**	21,196	21,528
Investment holding losses		**(11,154)**	(9,937)	(5,113)
Merger reserve		**12,615**	12,615	–
Profit and loss account		**3,131**	3,518	3,162
Total equity shareholders' funds		**26,100**	28,595	20,450
Net asset value per share	5	**33.4p**	36.4p	44.3p

The accompanying notes are an integral part of this statement.

Condensed financial statements (unaudited) (cont.)

Cash flow statement

	Note	Six months to 30 June 2009 (unaudited) £'000	Twelve months to 31 December 2008 (audited) £'000	Six months to 30 June 2008 (unaudited) £'000
Net cash outflow from operating activities	6	**(175)**	(1,954)	(332)
Financial investment				
Purchase of venture capital investments		**(578)**	(1,584)	(979)
Purchase of listed equities and fixed interest investments		**-**	(158)	(159)
Sale of venture capital investments		**-**	4,381	3,345
Sale/redemption of listed equity and fixed interest investments		**-**	2,933	190
Amounts recovered from investments previously written off		**10**	97	82
Total net financial investment		**(568)**	5,669	2,479
Equity dividends paid		**-**	(467)	(464)
Financing				
Funds received as part of merger		**-**	3,792	–
Buy-back of ordinary shares		**(86)**	(395)	(182)
Redemption of loan notes		**-**	(100)	–
Repayment of redeemable loan notes		**-**	–	(1)
Net interest on loan notes		**-**	(5)	–
Total financing		**(86)**	3,292	(183)
(Decrease)/increase in cash for the period		**(829)**	6,540	1,500
Reconciliation of net cash flow to movement in net funds				
(Decrease)/increase in cash for the period		**(829)**	6,540	1,500
Net funds at the start of the period		**7,139**	599	599
Net funds at the end of the period		**6,310**	7,139	2,099

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

Six months to 30 June 2009

	Share capital £'000	Share premium account £'000	Capital redemp-tion reserve £'000	Special reserve £'000	Investment holding losses £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
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 losses on investments	–	–	–	–	805	–	(805)	–
Transfer from special reserve to income statement	–	–	–	(805)	–	–	805	–
Net loss on revaluation of investments	–	–	–	–	(2,022)	–	2,022	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(2,409)	(2,409)
At 30 June 2009	**780**	**339**	**84**	**20,305**	**(11,154)**	**12,615**	**3,131**	**26,100**
Twelve months to 31 December 2008								
At 1 January 2008	467	339	67	23,157	(4,701)	–	2,416	21,745
Shares issued in connection with the merger	330	–	–	–	–	12,615	–	12,945
Shares purchased for cancellation	(12)	–	12	(395)	–	–	–	(395)
Realisation of prior years' net gains on investments	–	–	–	–	(1,306)	–	1,306	–
Transfer from special reserve to income statement	–	–	–	(1,566)	–	–	1,566	–
Net loss on revaluation of investments	–	–	–	–	(3,930)	–	3,930	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(5,233)	(5,233)
Dividends paid	–	–	–	–	–	–	(467)	(467)
At 31 December 2008	**785**	**339**	**79**	**21,196**	**(9,937)**	**12,615**	**3,518**	**28,595**
Six months to 30 June 2008								
At 1 January 2008	467	339	67	23,157	(4,701)	–	2,416	21,745
Shares purchased for cancellation	(5)	–	5	(182)	–	–	–	(182)
Realisation of prior years' net gains on investments	–	–	–	–	(400)	–	400	–
Transfer from special reserve to income statement	–	–	–	(1,447)	–	–	1,447	–
Net loss on revaluation of investments	–	–	–	–	(12)	–	12	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(649)	(649)
Dividends paid	–	–	–	–	–	–	(464)	(464)
At 30 June 2008	**462**	**339**	**72**	**21,528**	**(5,113)**	**–**	**3,162**	**20,450**

Condensed financial statements (unaudited) (cont.)

Notes

1 The financial information contained in this Half-Yearly Financial Report has been prepared in accordance with the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies and Venture Capital Trusts" and in accordance with the accounting policies set out in the Annual Report for the year ended 31 December 2008. As a change to the presentation previously adopted in the Annual Report, the results for the half year are presented in the form of an Income statement in three columns, 'Revenue', 'Capital', and 'Total', instead of a single-column profit or loss account. The revaluation reserve has been renamed 'Investment holding losses'. Additionally note 2 states the amount of the total reserves of the Company that is available for distribution by way of a dividend.

The annual financial statements of the Company are prepared under the historical cost convention, except for the measurement at fair value of fixed asset investments, and in accordance with the applicable UK accounting standards.

2 The total reserves available for distribution by way of a dividend is £12,282,000 (31 December 2008: 14,777,000, 30 June 2008: £19,577,000), being made up of the special reserve and profit and loss account, net of investment holding losses.

3 The revenue loss per share of 0.5p (30 June 2008: loss 0.7p, 31 December 2008: loss 1.1p) is based on the revenue loss on ordinary activities after tax of £397,000 (30 June 2008: loss £344,000, 31 December 2008: loss £623,000) and on the weighted average number of ordinary shares in issue during the period of 78,023,615 (30 June 2008: 46,380,000, 31 December 2008: 55,670,213).

The capital loss per share of 2.6p (30 June 2008: loss 0.7p, 31 December 2008: loss 8.3p) is based on the capital loss on ordinary activities after tax of £2,012,000 (30 June 2008: loss £305,000, 31 December 2008: loss £4,610,000) and on the weighted average number of ordinary shares in issue as above.

The total loss per share of 3.1p (30 June 2008: loss 1.4p, 31 December 2008: loss 9.4p) is based on the loss on ordinary activities after tax of £2,409,000 (30 June 2008: loss £649,000, 31 December 2008: loss £5,233,000) and on the weighted average number of ordinary shares in issue as above.

4 Movements in investments during the six months ended 30 June 2009 are as follows:

	Venture capital investments £'000
Cost at 1 January 2009	30,426
Net loss at 1 January 2009	(9,937)
Valuation at 1 January 2009	20,489
Movements in the period:	
Purchases at cost	578
Net loss on revaluation of investments	(2,022)
Valuation at 30 June 2009	19,045
Book cost at 30 June 2009	30,199
Net loss at 30 June 2009	(11,154)
Valuation at 30 June 2009	19,045

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

5 The net asset value per share as at 30 June 2009 of 33.4p (31 December 2008: 36.4p, 30 June 2008: 44.3p) is based on net assets of £26,100,000 (31 December 2008: £28,595,000, 30 June 2008: 20,450,000) divided by the 77,990,533 ordinary shares in issue at that date (31 December 2008: 78,534,876, 30 June 2008: 46,168,525). There is no dilution effect in respect of the period ended 30 June 2009 (31 December 2008: nil, 30 June 2008: nil).

6 Reconciliation of operating loss to net cash outflow from operating activities

	Six months to 30.06.09 (unaudited) £'000	Twelve months to 31.12.08 (audited) £'000	Six months to 30.06.08 (unaudited) £'000
Loss on ordinary activities	**(2,409)**	(5,228)	(646)
Loss on investments at fair value through profit or loss	**2,012**	4,610	305
Decrease/(increase) in debtors	**461**	(1,224)	(17)
(Decrease)/increase in creditors	**(239)**	(112)	29
Interest payable on loan notes	**–**	–	(3)
Net cash outflow from operating activities	**(175)**	(1,954)	(332)

7 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 2009, fees of £11,668 attributable to the investments of the Company were received pursuant to these arrangements (30 June 2008: £11,000, 31 December 2008: £26,000). During the six months to 30 June 2009 there were no transactions by Directors in shares of companies in which the company has invested (30 June 2008: none, 31 December 2008: none).

8 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 2008 have been delivered to the Registrar of 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.

9 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.

10 Copies of the Half-Yearly Financial Report are expected to be sent to shareholders on 25 August 2009. Further copies can be obtained from the Company's registered office.

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