

Oxford Technology 2 Venture Capital Trust Plc

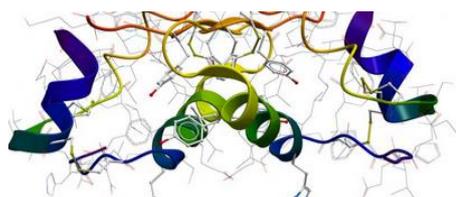
Unaudited Half-Yearly Report

For the period

1 March 2018 to 31 August 2018

Financial Headlines

	6 Months Ended 31 August 2018	Year Ended 28 February 2018
Net Assets at Period End	£1.62m	£1.69m
Net Asset Value per Share	30.4p	31.7p
Cumulative Dividend per Share	21.0p	21.0p
Total NAV Return per Share	51.4p	52.7p
Share Price at Period End (Mid-Market)	36.5p	27.5p
Earnings per Share	(1.3)p	1.0p



Arecor – Ultra-Rapid Acting Insulin

Statement on behalf of the Board

I am pleased to present the unaudited results for the six month period ended 31 August 2018.

Results

The Company's net asset value (NAV) per share has decreased from 31.7p at 28 February 2018 by 1.3p to 30.4p at 31 August 2018, half of which is due to operating costs and the other half due to a slight net reduction in the valuations of the portfolio. Shareholders are reminded that the Company accrued 50% of the amount being held in escrow following the sale of OCR Robotics last year. We have not yet been made aware of any potential claims against the warranties and remain hopeful that we may be able to account for the balance (£164k, i.e. 3p per share) this time next year, although there is also obviously the possibility that the similar amount already accrued may be at risk.

Portfolio Review

As I indicated in my statement in the 2018 Annual Report, the Company invested £150,000 into Scancell Holdings Plc (Scancell) in April 2018, as part of a £7.5m funding round: OT2 now owns 1,250,000 shares. Scancell is well known to the Directors and Investment Adviser (and also to shareholders who have attended our recent AGMs). It is developing a number of exciting new potential breakthrough cancer treatments, has a number of active initiatives and continues to make scientific and regulatory progress. In the last few months, it has established manufacture of Moditope, extended the Trichor delivery mechanism deal for SCIB1 and is busy preparing for the clinical trials which were signed up earlier in the year. Given Scancell is quoted on AIM, this qualifying investment will also help OT2 manage any future liquidity needs. Without such flexibility, there is a risk OT2 may have struggled to meet some of the latest VCT qualifying test requirements, again as explained in the VCT Market Changes section of the 2018 Annual Report. The bid price of Scancell at 31 August 2018 was 11.5p, 0.5p lower than the placing price, leading the Company to record a small unrealised loss in the period. The Directors are optimistic that this will be reversed before the Company actually needs to sell any of its holding.

The 8 unlisted companies within the portfolio continue to develop, and where required and permitted under VCT rules your Company continues to invest to support that development. ImmBio is in negotiations with pharma partners regarding PnuBiovax, and during the period an additional investment of £12k was made to enable the first deals to be closed. After the period end, £59k was invested in Orthogem, which now has CE approval for its putty product and has begun sales and is signing up new distributors.

Select Technology, a photocopier (or more generally Multi Function Device, or MFD) software company, remains the largest holding in your Company's portfolio (nearly a third of the total investment value). Having suffered a setback with the loss of a master distributorship for Europe with one product in 2017, which led to the company becoming loss-making for a period, Select Technology has been making good progress with IDEA - the International Document Evolution Alliance. This is a global network of distributors who all understand software, networks and the document management business, and who can offer a one stop global distribution network which is attractive to developers. Sales and profit margins have been increasing and the prospects for the future are encouraging. The company attended our recent AGM and its presentation can be found on our website.

Arecor continues to make encouraging technical and commercial progress, and has secured a £6m funding round, led and 80% funded by 3 VCT groups: Calculus, Downing and Albion. We take this as a strong third party vote of confidence in the company, its technology and its business plan. OT2 invested in advance (in the previous financial year) and OT3 & OT4 have also invested in this round.

Oxis Energy is busy leading a £7m Innovate project and has started construction of a manufacturing plant in Brazil, but unfortunately raised money recently at a significant reduction to the previous round. The impact of the preferential rights of certain share classes further amplifies the effect of this.

Overall, the impact of valuation changes across the portfolio during the first half of 2018 has been a loss of £33k.

The Directors along with the Investment Adviser continue to take an active interest in the remaining companies within the portfolio, both to support their management teams to achieve company development, but also to

prepare companies for realisation at the appropriate time. It should however be noted that approaches do occur at other times, and the ability of the Directors and Investment Adviser to be able to provide support when such approaches occur is essential for maximising value.

Liquidity

The Directors are not proposing any dividend at this time, in order to ensure that the Company retains sufficient cash to ensure it can continue to operate for the foreseeable future and remain VCT qualifying. Some portfolio companies will require further financing and, as always, these will be considered on a case by case basis.

VCT qualifying status

The Board has procedures in place to ensure that the Company continues to comply with the conditions laid down by HMRC for maintaining approval as a VCT. As already flagged, the Company took the unusual step in April 2018 to invest in a new AIM holding (Scancell), the prime intention of which was to be confident of meeting new VCT holding test requirements once they apply in two years' time.

Change of Auditor

James Cowper Kreston, our auditors for the last 13 years, have decided to withdraw from auditing Public Interest Entities for the time being due to the increasing regulatory landscape and associated costs. Unfortunately, this includes VCTs. The Board would like to thank them for all their support and constructive feedback during their period in office. Shareholders will recall that last year, we carried out a tender for the audit. The Audit Committee was also impressed by one of the other firms who responded, and on its recommendation, the Board is therefore pleased to appoint UHY Hacker Young LLP ("UHY") to fill the casual vacancy that has arisen. UHY will audit the Company's 2019 annual results, and shareholders will be asked to reappoint them at next year's AGM for the following year's audit.

Presentation of half-yearly report

In order to reduce the length of this report, we have omitted details of the Company's objectives and investment strategy, its Advisers and Registrar and how to buy and sell shares in the Company. These details are all included in the Annual Reports, which together with previous half-yearly reports, are available for viewing on the Oxford Technology website.

Outlook

Your Directors continue to monitor changes to VCT legislation, and their potential impact on both the VCT and its investee companies. Recent rule changes to tax efficient investment schemes are not expected to have any material impact on the current portfolios or on current investors as the VCT is fully invested. Likewise, whilst the impact of Brexit remains unclear, your Directors do not expect its eventual outcome to have a material impact on portfolio valuations.

The Board has previously announced that it was aware that due to recent realisations, the VCT is becoming sub economic with unavoidable overheads on a small asset base. We are pleased to have announced our proposed tie up with Chelverton Asset Management, and we hope shareholders will support the various resolutions that will be proposed at the General Meeting on 19 November 2018, to enable the creation of a new class of shares, and the fundraising that will follow. It will be the start of another chapter in the VCT's life, whilst allowing time for value to be crystallised from the existing portfolio and cash distributed to shareholders when the opportunity arises. We remain of the view that the portfolio, while concentrated, still holds significant potential over the medium term although not without risk: this initiative with Chelverton should ensure the ongoing protection for shareholders who are still harbouring capital gains that were deferred at the time of their initial subscription, and with lower ongoing operating costs for everyone.

Finally, I would like to take this opportunity to thank shareholders, many of whom we were able to welcome to our AGM in July, for their continued support.

Richard Roth
Chairman
23 October 2018

Investment Portfolio as at 31 August 2018

Company	Description	Net Cost of investment £'000	Carrying value at 31/08/18 £'000	Change in value for the 6 month period £'000	% Equity held OT2	% Equity held All OTVCTs	% Net Assets
Select Technology	Photocopier interfaces	132	388	32	7.4	58.6	23.9
Arecor	Protein stabilisation	289	295	27	2.6	12.1	18.2
ImmBio	Novel vaccines	267	200	24	2.6	20.9	12.3
Scancell (bid price 11.5p)	Antibody based cancer therapeutics	150	144	144	0.3	3.3	8.9
Orthogem	Bone graft material	342	100	-	5.3	19.9	6.2
Insense	Active wound healing dressings	204	52	-	2.0	6.8	3.2
Oxis Energy	Rechargeable batteries	540	42	(98)	0.2	0.4	2.6
Plasma Antennas	Solid state antennas	188	38		5.6	48.8	2.3
Inaplex	Data Integration	138	19	-	21.5	34.8	1.1
Total Investments		2,251	1,278	129			78.7
Other Net Assets			345				21.3
Net Assets			1,623				100

Responsibility Statement of the Directors in respect of the half-yearly report

We confirm that to the best of our knowledge:

- the half-yearly financial statements have been prepared in accordance with the statement “Interim Financial Reporting” issued by the Financial Reporting Council;
- the half-yearly report includes a fair review of the information required by the Financial Services Authority Disclosure and Transparency Rules, being:
 - an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements.
 - a description of the principal risks and uncertainties for the remaining six months of the year.
 - a description of related party transactions that have taken place in the first six months of the current financial year that may have materially affected the financial position or performance of the Company during that period and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board:

Richard Roth
Chairman
23 October 2018

Income Statement

	Six months to 31 Aug 2018			Six months to 31 Aug 2017			Year to 28 Feb 2018		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	-	-	-	-	33	33	-	86	86
Unrealised (losses)/gains on valuation of fixed asset investments	-	(33)	(33)	-	115	115	-	49	49
Investment management fees	(2)	(6)	(8)	(3)	(9)	(12)	(6)	(19)	(25)
Other expenses	(27)	-	(27)	(24)	-	(24)	(50)	-	(50)
Return on ordinary activities before tax	(29)	(39)	(68)	(27)	139	112	(56)	116	60
Taxation on ordinary activities	-	-	-	-	-	-	-	-	-
Return on ordinary activities after tax	(29)	(39)	(68)	(27)	139	112	(56)	116	60
Earnings per share – basic and diluted	(0.6)p	(0.7)p	(1.3)p	(0.4)p	2.1p	1.7p	(0.9)p	1.9p	1.0p

- 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 accompanying notes are an integral part of the half-yearly report.
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds.

The Company has no recognised gains or losses other than the results for the period as set out above. Accordingly, a Statement of Comprehensive Income is not required.

Balance Sheet

	As at 31 Aug 2018		As at 31 Aug 2017		As at 28 Feb 2018	
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed asset investments (At fair value through profit and loss)		1,278		1,014		1,149
Current assets:						
Debtors	184		227		166	
Creditors: Amounts falling due within one year	(19)		(18)		(10)	
Cash at Bank	180		1,417		386	
Net current assets		345		1,626		542
Net assets		1,623		2,640		1,691
Called up equity share capital		533		679		533
Capital redemption reserve		146		-		146
Share premium		376		376		376
Unrealised capital reserve		(973)		(874)		(940)
Profit and Loss account reserve		1,541		2,459		1,576
Total equity shareholders' funds		1,623		2,640		1,691
Net asset value per share		30.4p		38.9p		31.7p

Statement of Changes in Equity

	Share Capital £'000	Capital Redemption Reserve £'000	Share Premium £'000	Unrealised Capital Reserve £'000	Profit & Loss Reserve £'000	Total £'000
As at 1 March 2017	679	-	376	235	1,238	2,528
Revenue return on ordinary activities after tax	-	-	-	-	(27)	(27)
Expenses charged to capital	-	-	-	-	(9)	(9)
Current period gains on fair value of investments	-	-	-	115	-	115
Current period gains on disposal	-	-	-	-	33	33
Prior year gains now realised	-	-	-	(1,224)	1,224	-
Balance as at 31 August 2017	679	-	376	(874)	2,459	2,640
As at 1 March 2017	679	-	376	235	1,238	2,528
Revenue return on ordinary activities after tax	-	-	-	-	(56)	(56)
Expenses charged to capital	-	-	-	-	(19)	(19)
Current period gains on disposal	-	-	-	-	86	86
Current period gains on fair value of investments	-	-	-	49	-	49
Purchase of own shares	(146)	146	-	-	(470)	(470)
Prior year gains now realised	-	-	-	(1,224)	1,224	-
Dividends paid	-	-	-	-	(427)	(427)
Balance as at 28 February 2018	533	146	376	(940)	1,576	1,691
As at 1 March 2018	533	146	376	(940)	1,576	1,691
Revenue return on ordinary activities after tax	-	-	-	-	(29)	(29)
Expenses charged to capital	-	-	-	-	(6)	(6)
Current period losses on fair value of investments	-	-	-	(33)	-	(33)
Balance as at 31 August 2018	533	146	376	(973)	1,541	1,623

Statement of Cash Flows

	Six months to 31 Aug 2018 £'000	Six months to 31 Aug 2017 £'000	Year to 28 Feb 2018 £'000
Cash flows from operating activities			
Return on ordinary activities before tax	(68)	112	60
Adjustments for:			
Increase in debtors	(18)	(225)	(164)
Increase/(decrease) in creditors	9	(7)	(15)
Gain on disposal of fixed asset investments	-	(33)	(86)
Losses/(Gains) on valuation of fixed asset investments	33	(115)	(49)
Movement in investment debtors and creditors	-	213	164
Outflow from operating activities	(44)	(55)	(90)
Cash flows from investing activities			
Purchase of fixed asset investments	(162)	(30)	(230)
Sale of fixed asset investments	-	1,356	1,457
Total cash flows from investing activities	(162)	1,326	1,227
Cash flows from financing activities			
Tender Offer	-	-	(470)
Dividends paid	-	-	(427)
Total cash flows from financing activities	-	-	(897)
(Decrease)/increase in cash and cash equivalents	(206)	1,271	240
Opening cash and cash equivalents	386	146	146
Closing cash and cash equivalents	180	1,417	386

Notes to the Half-Yearly Report

1. Basis of preparation

The unaudited half-yearly results which cover the six months to 31 August 2018 have been prepared in accordance with the Financial Reporting Council's (FRC) Financial Reporting Standard 104 Interim Financial Reporting ('FRS 104') and the Statement of Recommended Practice (SORP) for Investment Companies re-issued by the Association of Investment Companies in November 2014. Details of the accounting policies and valuation methodologies are included in the Annual Report.

2. Publication of non-statutory accounts

The unaudited half-yearly results for the six months ended 31 August 2018 do not constitute statutory accounts within the meaning of Section 415 of the Companies Act 2006. The comparative figures for the year ended 28 February 2018 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements, in accordance with chapter 3, part 16 of the Companies Act 2006, was unqualified. This half-yearly report has not been reviewed by the Company's auditor.

3. Earnings per share

The calculation of earnings per share for the period is based on the return attributable to shareholders divided by the weighted average number of shares in issue during the period. There are no potentially dilutive capital instruments in issue and, therefore, no diluted returns per share figures are relevant.

4. Net asset value per share

The net asset value per share is based on the net assets at the period end divided by the number of shares in issue at that date (2018: 5,331,889; 2017: 6,792,923).

5. Principal risks and uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. 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 Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail in the Company's Annual Report and Accounts for the year ended 28 February 2018. The Company's principal risks and uncertainties have not changed materially since the date of that report.

6. Related party transactions

OT2 Managers Ltd, a wholly owned subsidiary, provides investment management services to the Company for a fee of 1% of net assets per annum.

7. Events after the Balance Sheet Date

In September 2018, OT2 invested £59,000 in Orthogem Limited.

As alluded to in the Chairman's statement, on 22 October 2018, the Company published a Circular to Shareholders, regarding a proposal to increase its capital base, and the related appointment of a new investment manager.

8. Copies of this statement are available from Oxford Technology Management, The Magdalen Centre, Oxford Science Park, Oxford OX4 4GA and on the Company's website – www.oxfordtechnology.com/vct2.

Board Directors: Richard Roth, Alex Starling, Robin Goodfellow, and David Livesley

Investment Manager: OT2 Managers Ltd with services contracted to Oxford Technology Management Ltd

Website: www.oxfordtechnology.com/vct2