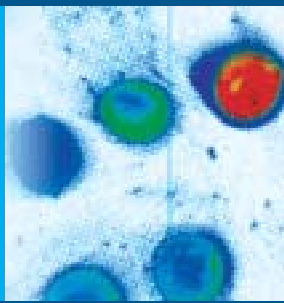
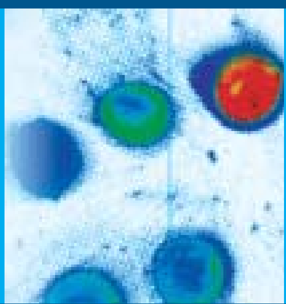
Annual Report
for the year ended
31 December 2003



BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 plc

Contents

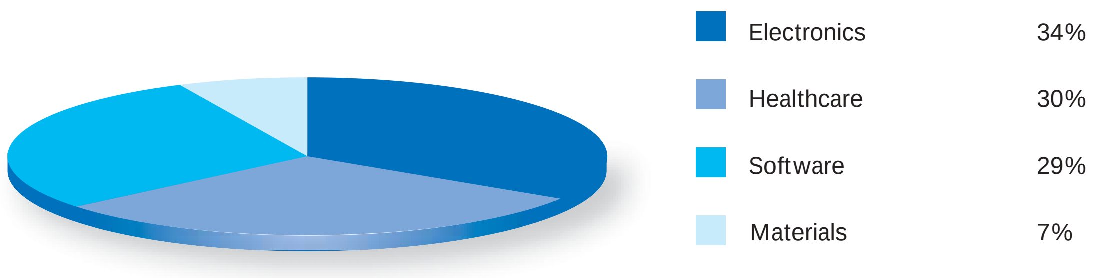





British Smaller Technology Companies VCT 2 plc

Advised by Yorkshire Fund Managers Limited, British Smaller Technology Companies VCT 2 plc provides venture capital funding of up to £1m, to VCT qualifying companies, which are seen as having a:

- talented management team
- strong intellectual property
- significant potential market
- real commitment to growth



The 13 investments within the British Smaller Technology Companies VCT 2 plc portfolio are taken from a wide range of industry sectors. The above chart shows the industry spread of active investments at cost.

Financial Calendar

Results Announced	15 March 2004
Annual General Meeting	6 May 2004

Chairman's Statement

During 2003 the technology sector began to show signs of recovery as a general economic recovery took hold and as the uncertainties surrounding the Iraq war faded. During the year our benchmark index, the FTSE techMARK All-Share rose 42%. With greater confidence in financial markets and growing interest in new share issues, we expect to see increasing exit opportunities for some of our investments; indeed one, Amacis Group has been acquired by a US based company quoted on NASDAQ.

Investment Valuations

I gave notice in my interim report that, with effect from 1 August 2003, the British Venture Capital Association (BVCA) has revised its guidelines for the valuation of venture capital investments. Your board has adopted these revised guidelines and the investment portfolio at 31 December 2003 has been valued accordingly. For early stage companies that are typical of this portfolio, the main change is a move away from a cost base and provisioning in standard banding of 25% increments, to applying more specifically defined methodologies, which aim to produce reliable, fair valuations. Although it is not possible to measure precisely, the directors' view is that this change has not had a material effect on the reported net asset value.

This revision to the valuation methodology represents a change in the basis of measurement and not a change in accounting policy. Therefore, the prior year comparative figures have not been restated.

Operations

A total of £1.6m was invested in eight businesses over the year. Five of these businesses were new additions to the portfolio with the remaining three being follow-on investments.

I commented on the investments made in the first half of the year in my interim report circulated to Shareholders in September. In the second half of the year, your Company invested £811,000. There were two new investments in this period, Purely Proteins Limited and Self-Timed Solutions Limited.

Purely Proteins is an innovative, informatics-led, protein purification company. The investment of £200,000 was part of a first round venture capital fund raising to exploit the increasing potential of human proteins in pharmaceutical research. With this funding, Purely Proteins will now be able to expand its existing range of informatics and protein-based products, as well as begin to apply its technologies to the discovery of new therapies.

Self-Timed Solutions, a spin-out company from Manchester University, has developed asynchronous chip technology that has a number of advantages in both chip design and energy consumption. Your Company invested £121,000 as part of a much larger £2m syndicate of investors.

Further information on all companies within the portfolio can be found in the Investment Adviser's review.

The signs of increasing corporate activity were underlined at the end of the year when Amacis Group was bought by Primus Knowledge Solutions Inc., a US based company quoted on NASDAQ. Primus develops award-winning software solutions for mid-market and Global 2000 organisations. Primus' knowledge sharing software is used in call centres, help desks, and Web self-service environments to increase customer satisfaction, improve employee efficiency and lower operating costs. Its current customers include 3Com, Airbus, Boeing, Fujitsu, IBM, Motorola and T-Mobile. Your Company invested £275,000 in Amacis in April 2003. The consideration received by your Company was in the form of Primus shares, valued at £598,000 at 31 December 2003.

Although this does not yet represent a cash realisation it does give an encouraging indication of the portfolio's potential in terms of growth and exit opportunities.

Financial results

The result for the period was a total return loss of 7.09 pence per share with a revenue loss of 0.41 pence per share and a capital loss of 6.68 pence per share. The net asset value at 31 December 2003 was 84.6 pence per share representing a decrease of 7.6% over the year as a whole.

> *"We expect to see increasing exit opportunities for some of our investments."*

Liquid Resources and Rate of Investment

At the year end, liquid resources available to the Company stood at just under £4.1m. Therefore, your Company still has a significant level of funds to invest in growing businesses. The board and its Investment Adviser, Yorkshire Fund Managers, is constantly reviewing the portfolio to assess the likely level of follow-on funding that will be required by the existing investments. This will dictate the level of cash resources that can be made available for new investment opportunities.

31 December 2003 was the first year end for which your Company had to formally comply with the VCT legislation that requires, amongst other things, at least 70% of investments to be in qualifying holdings (as defined by the legislation). In order to meet this requirement, but not compromise the quality of investments or available reserves for follow-on funding demands, sufficient funds were placed on non-interest bearing deposit prior to the reporting date, and will continue to be held as such until suitable qualifying investments are made.

This will result in a small reduction in the Company's income over the forthcoming year but the board is of the opinion that this action is in the best interests of Shareholders in protecting their existing tax benefits and creating the opportunity for future capital gains.

Warrants

A notice will be sent to Shareholders and Warrantholders in April 2004 alerting them to the dates on which Warrants can be exercised in the current year.

Shareholder Relations

As I reported in September 2003, the proposals to enable your Company to buy back its own shares were approved by Shareholders at the Annual General Meeting held on 15 May 2003. I am pleased to confirm that Court approval has been granted and the Company is now in a position to buy back a limited number of shares where the directors determine it is in the best interests of other Shareholders to do so, taking account of the price per share and the cash reserves of the Company at the time.

In the year under review, Yorkshire Fund Managers held a total of four investor workshops that were well attended and received by many Shareholders across the three venture capital trusts under its management. The forum provides a good opportunity for Shareholders to get a better understanding of the companies in the portfolio, the strategic and operating issues of these VCTs and changes to the legislative environment in which this type of company operates. Your board and Yorkshire Fund Managers are keen to continue this programme and the next workshop will be held on 21 April 2004 in London.

"The Stock Market recovery during 2003 has provided a much welcome impetus for smaller, growing companies."

John Ashcroft

It is with deep sadness that I have to report to you the death of John Ashcroft who had been an independent non-executive director of this Company, and of British Smaller Technology Companies VCT plc, since the initial issue. John had been fighting against illness for some time, yet his energy and perceptive contributions to boardroom debates continued, as always, to be a source of inspiration to me and his fellow directors. Our heartfelt condolences go out to his wife, Alison, and family. He will be greatly missed by all who knew him.

Outlook

The Stock Market recovery during 2003 has provided a much welcome impetus for smaller, growing companies in their exit plans. Although the performance in the middle six months of the year, for smaller quoted companies in particular, did slacken off toward the end of 2003, the mood into 2004 has remained optimistic. There is a general consensus that UK interest rates will continue to rise in 2004, but as long as this is kept to forecast levels it should not unduly dampen the current increase being seen in corporate finance activity. The main risk to business confidence is likely to come from the US where the market is perceived as overvalued and the presidential elections may cause nervousness in the markets. If this does happen, I would expect there to be some feedback into the UK economy.

We continue to look to work with strong syndicates in making new investments and to ensure that we have adequate reserves to support portfolio companies on the road to market acceptance of their products. The early signs of corporate activity, both generally and within our own portfolio, give encouragement for realisation opportunities in the medium term.

Sir Andrew Hugh Smith
Chairman
1 April 2004

Investment Adviser's Review

Investment Portfolio

This section describes the business of the active companies in the investment portfolio. The website addresses of the companies are included to enable Shareholders to obtain more details on the investee companies should they wish to do so. The Company's voting rights in an investee company is the same as the percentage of equity held for each investment set out below.

Amino Holdings Limited

Cost	£415,000
Valuation	£446,000
Dates of investment	September 2001, March 2003 and November 2003
Equity held	2.40%
Valuation basis	Price of recent investment
Location	Cambridge

Audited consolidated accounts for Amino Holdings Limited and its subsidiary are not produced. For the year ended 31 December 2002 audited pre-tax losses of the company's trading subsidiary were £2.11m on turnover of £0.85m (2001: £3.22m loss and £2.07m respectively). At 31 December 2002 the aggregate net liabilities of Amino Holdings Limited and its 100 percent subsidiary Amino Communications Limited were £6.87m.

During the last eighteen months Amino has emerged as a leading developer of low cost, small form Set-Top-Boxes. As well as being critically acclaimed and winning a prestigious Red Dot design Award the company has, more recently, built a multi-million dollar order book and grown its customer base significantly. In the fourth quarter of the year Amino successfully raised a further £5m of funding, in a round supported by your Company, a number of existing shareholders and some significant new ones.

www.aminocom.com

Broadreach Networks Limited

Cost	£250,000
Valuation	£250,000
Dates of investment	February 2003 and October 2003
Equity held	5.85%
Valuation basis	Price of recent investment
Location	London

For the year ended 31 October 2002 audited pre-tax losses were £0.16m on turnover of £0.13m (2001 unaudited 6 month period: £0.16m and £0.06m respectively). At 31 October 2002 the aggregate net assets of Broadreach Networks Limited were £nil.

Broadreach are a public access broadband provider, with both fixed access and wireless hot spots within their portfolio. A spin-out from Arthur D Little, the international management consultancy firm, Broadreach has also received funding from British Telecom, Virgin Group and Intel Capital.

The company continues to extend both its live network and its commercial relationships with site owners and service providers.

www.broadreachnet.com

Cambridge Cognition Limited

Cost	£240,000
Valuation	£60,000
Date of investment	May 2002
Equity held	10.10%
Valuation basis	Discounted cash flows of the underlying business
Location	Cambridge

For the period ended 31 December 2002 audited pre-tax losses were £0.81m on turnover of £0.61m. At 31 December 2002 the aggregate net assets were £0.74m.

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing. It supplies licenses and software to pharmaceutical, academic and medical customers across the globe.

During the year, the company has continued to supply product to its traditional markets. Further product development on different platforms has given access to new markets.
www.camcog.com

ExpressOn Biosystems Limited

Cost	£300,000
Valuation	£228,000
Dates of investment	October 2002, July 2003 and December 2003
Equity held	8.93%
Valuation basis	Price of recent investment
Location	Roslin (Edinburgh)

For the year ended 30 September 2002 audited pre-tax losses were £0.21m on turnover of £0.07m (2001: £0.08m and £0.07m respectively). At 30 September 2002 the aggregate net liabilities were £0.20m.

ExpressOn have developed array technology for RNA and DNA mapping. Their technology uses six base DNA strands to allow a fully redundant array to be presented on a single slide. Having used the technology in-house to undertake contract research for clients, they have now developed it into a robust product.
www.expresson.co.uk

Immunobiology Limited

Immunobiology

Cost	£200,000
Valuation	£200,000
Dates of investment	June 2003 and December 2003
Equity held	12.14%
Valuation basis	Price of recent investment
Location	Cambridge

For the year ended 31 May 2003 audited pre-tax losses were £0.19m on turnover of £0.03m (2002: £0.16m loss and £0.08m respectively). At 31 May 2003 net assets were £0.16m.

Immunobiology is developing high efficacy vaccines for infectious diseases based on Heat Shock Protein Complexes.

Following initial work on Tuberculosis vaccines, which are now being licensed, Immunobiology is developing an influenza vaccine. This is expected to reach human trials during 2004.
www.immunobiology.co.uk

Investment Adviser's Review

Infinite Data Storage Limited

Cost	£300,000
Valuation	£76,000
Dates of investment	March 2002 and November 2002
Equity held	2.96%
Valuation basis	Price of recent investment
Location	Dunfermline

For the year ended 31 December 2002 audited pre-tax losses were £1.85m on turnover of £0.17m (2001: £1.19m and £0.17m). At 31 December 2002 net assets were £1.65m.

Infinite Data Storage is a leading player in personal data storage technologies, developing, licensing and supplying its products to leading global peripheral device and consumer product companies. It specialises in the creation of products and technology designed to fit into ordinary peoples' lives.

During the year, the company has raised further funding, has begun to secure commercial agreements for its technologies and continues to further develop key relationships.

www.infinitedatastorage.com

Oxonica Limited

Cost	£225,000
Valuation	£67,000
Dates of investment	May 2002 and December 2002
Equity held	3.22%
Valuation basis	Price of recent investment
Location	Kidlington

For the year ended 31 December 2002 audited pre-tax losses were £2.12m on turnover of £0.12m (31 December 2001: £0.94m and 0.03m respectively). At 31 December 2002 consolidated net assets for Oxonica Limited were £0.07m.

Oxonica is focused on the new technology area of nanomaterials. It has strong enabling technology based on its ability to engineer nanoparticles with unique functionality and then to modify the surface of these particles to allow them to be tailored for use in specific applications.

During the year, the company has continued to make technological progress in its three markets of fuel additives, cosmetic applications and bio labelling. Following successful large scale trials in Asia, which confirmed significant fuel savings and cleaner exhaust emissions, the company is in the process of negotiating commercial agreements.

www.oxonica.com

Primus Knowledge Solutions Inc. (Amacis Group)

Cost	£275,000
Valuation	£598,000
Date of investment	April 2003
Equity held	0.87%
Valuation basis	Quoted bid price
Location	Washington (USA)

For the year ended 31 December 2002 audited pre-tax losses were US$ 8.85m on turnover of US$20.94m (2001:US$21.4m loss and US$27.6m respectively). At 31 December 2002 net assets were US$33.3m, loss per Ordinary share was US$0.59 and no dividends were paid or proposed in either year.

In December 2003 the Company's investment in Amacis Holdings Limited was acquired in an all-share acquisition by Primus Knowledge Solutions Inc based in Seattle, Washington, USA. Primus is quoted on the NASDAQ Small Cap Market and is a supplier of knowledge management and customer service software.

50% of the holding is subject to a lock in of three months from the date of share registration, with the remaining 50% locked in for a period of six months. A discount to the quoted bid price has been applied to reflect this.

www.primus.com

Investment Adviser's Review

Purely Proteins Limited

Cost	£200,000
Valuation	£200,000
Date of investment	November 2003
Equity held	11.43%
Valuation basis	Price of recent investment
Location	Cambridge

Audited financial statements for the first period of trading are not yet available.

Purely Proteins uses protein affinity purification technologies and computational software to identify novel relationships between discovery targets and their corresponding chemical ligands. Purely Proteins' databases house both public domain and proprietary information of direct relevance to drug discovery, linking proteomics to established areas such as structural biology and medicinal chemistry. Clients can use the databases to identify new drug targets, the ligand designs for protein separation and purification and to eliminate side effects causing secondary interactions.
www.purelyproteins.com

Sirus Pharmaceuticals Limited

Cost	£250,000
Valuation	£27,000
Dates of investment	September 2001, October 2002 and November 2002
Equity held	3.18%
Valuation basis	Discounted cash flow from investment
Location	Cambridge

For the year ended 31 August 2002 audited pre-tax losses were £1.71m on turnover of £0.02m (2001: £0.86m loss and £0.02m respectively) At 31 August 2002 net liabilities were £1.48m.

Sirus Pharmaceuticals has a portfolio of drug delivery technologies suitable for use in the central nervous system and pain relief. This allows it to formulate new products with enhanced efficacy based on existing and fully licensed molecules. Its first development product to enter clinical trials is a sublingual fentanyl spray for the treatment of pain in cancer therapy.

Since the year end, your Company sold its investment in Sirus Pharmaceuticals Limited to Arakis Limited. Further details can be found in note 21 to the financial statements.
www.siruspharma.com

Self-Timed Solutions Limited

Self-Timed Solutions Ltd

Cost	£121,000
Valuation	£121,000
Date of investment	December 2003
Equity held	10.96%
Valuation basis	Price of recent investment
Location	Manchester

Audited financial statements for the first period of trading are not yet available.

Self-Timed Solutions is a start-up spin-out from the University of Manchester which is looking to develop a novel integrated circuit software toolset. At this point, the business has only received an investment from the Company of £121,000 to develop certain initial technical milestones.

Since the year end the business is proposing to change its name and now trade as Silistix.

Investment Adviser's Review

Tamesis Limited

Cost	£150,000
Valuation	£37,000
Date of investment	July 2001
Equity held	1.59%.
Valuation basis	Industry benchmark – turnover multiple
Location	London

Tamesis has taken advantage of the small company exemption available under the Companies Act 1985, and has not filed full audited financial statements at Companies House. At 31 December 2002 net assets were £0.32m.

Tamesis is a developer of real-time trading software for investment banks. This provides its clients with a capability that can change the way in which they view their own risk position and, therefore, significantly enhance the way in which they handle their investment business.

The successful client implementation of its software during 2003 helped energise its sales pipeline and the prospects for 2004 are encouraging.

www.tamesis.com

Vibration Technology Limited

Cost	£249,000
Valuation	£225,000
Dates of investment	March 2002 and May 2003
Equity held	2.75%
Valuation basis	Price of recent investment
Location	Glasgow

For the year end 31 December 2002 audited pre-tax losses were £1.81m on turnover of £nil (2001: £0.51m loss and £nil respectively). At 31 December 2002 net assets were £0.29m.

Vibration Technology (Vibtech) is a developer of a land and transition zone seismic acquisition system, which uses a patented cellular radio network to telemeter seismic data from any number of sensors to a central recording unit in real-time.

During the year, Vibtech successfully completed a significant fund raising to finance the completion of the development of the system and to fund its commercial launch. A completed system has been tested and put through a rigorous trial in mainland China. The company is now anticipating its first commercial sales and continues to refine the technology.

www.vibtech.co.uk

Introduction

As we announced last year, the investment strategy remains targeted at syndicated investments in companies with market ready products that have begun to demonstrate market penetration. The funding environment has remained difficult, with only a limited number of potential syndicate partners available. The cautious sentiment displayed by the investment community at large has inevitably extended the negotiation process for each individual investment. Therefore, the focus during the year under review has been to work closely with the existing portfolio companies to ensure strong management, and sufficient funding, whilst adding a small number of new investments where the proposition is seen as being particularly convincing.

Cash and other resources totalled just under £4.1 million as at 31 December 2003. We are continually reviewing the anticipated funding which may be required by existing portfolio companies to take them through to realisation. Following this review, we believe that the Company has adequate funds to support those businesses which merit further support and also to make selective new investments as part of strong syndicates in companies close to commercial viability.

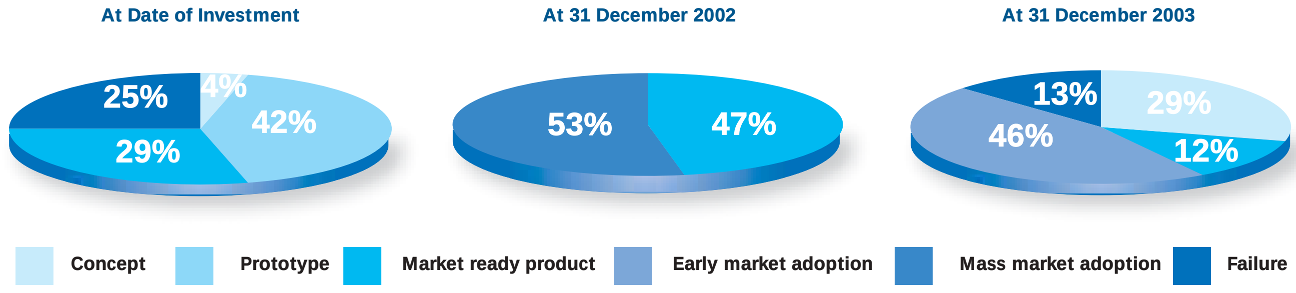
During the year Mr P. S. Cammerman was appointed Executive Chairman of Yorkshire Fund Managers Limited, of which D.I. Hall became Managing Director.

Portfolio Overview

Progress in 2003

During the year, investments totalling £1,046,000 were made in five additional companies with follow-on funding to three existing portfolio companies totalling £560,000. This takes the total investment to date to £3,175,000.

In accordance with the Prospectus, your Company has invested in early stage companies with, not only, strong intellectual property that helps them gain a market advantage, but also whose products, although market ready, have not yet achieved market traction. Our investment has helped them develop rapidly and, as the chart below illustrates, some are beginning to achieve an increasing market adoption for their products.



The market for acquisitions began to show signs of recovery during the year, and one investee company, Amacis Group, has provided a partial exit with a trade sale to NASDAQ quoted Primus Knowledge Solutions Inc. We invested £275,000 in Amacis Group, a leading provider of electronic communication management solutions to global organisations, in April 2003 as part of a much larger funding package. The acquisition by Primus took place in December 2003 and results in your Company receiving 188,038 shares in Primus, which, at 31 December 2003, were valued at $6.29 per share. The exchange rate prevailing at the year end was $1.78.

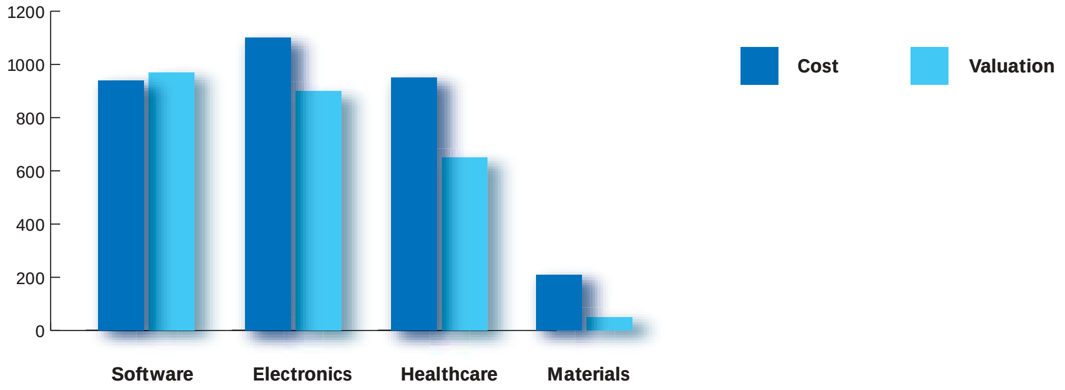
Investment Adviser's Review

Sector Analysis

As we have already indicated, funding for technology has not seen a great deal of activity in 2003, with the Healthcare and Biotechnology sectors being particularly affected. Valuations in additional funding rounds are generally dilutive or, at best, provide minimal uplifts. In some cases, they contain specific liquidation preferences which disadvantage non participating investors; hence the need to manage residual funds to ensure that the Company can participate in follow-on funding rounds when support is justified. The portfolio reflects an investment focus on software, electronics and healthcare, with similar levels of investment in each of the three sectors.

The performance in the software sector reflects the increased valuation taken upon the acquistion of Amacis by Primus, offset by provisions on our other software companies which are still experiencing difficult trading conditions. In the other sectors the new valuation guidelines have resulted in moderate provisions being taken. With increasing evidence of market penetration being demonstrated by Amino, a small valuation uplift has been justified.

Sector analysis by cost and value as at 31 December 2003



Valuation Movements

The Chairman's Statement alludes to the effect of the revised BVCA valuation guidelines, which are set out in greater detail on pages 12 and 13 of this Report. With the exception of Primus, whose value is based on quoted market price, all new investments in the year under review are valued at the price at which the investment was made. Over the whole portfolio, within the current year there has been a net downward valuation movement of £388,000. Some investments have been reduced in value to reflect an under-performance compared to expectations at the time of investment; others to reflect the pricing of subsequent funding rounds.

	£000
Write down to reflect under-performance (net)	(246)
Valuation movements resulting from fund raising (net)	(142)
	(388)

Conclusion and Outlook

The year under review has shown encouraging progress in the portfolio. Amino is beginning to show tangible evidence of reaching mass market adoption and Amacis has provided a partial exit. Other companies have continued their development and could see more rapid market penetration in the current year. Your Company has retained cash both for new investment and to participate in further funding rounds as required. The focus of our work remains on selecting new investments in businesses that have market ready products and working with existing investee companies to help them achieve the results which we expected at the time of investment.

David Hall
Yorkshire Fund Managers Limited
1 April 2004

Valuation of Venture Capital Investments

In valuing venture capital investments the directors follow the criteria set out below. These procedures comply with the revised British Venture Capital Association Valuation Guidelines that became effective from 1 August 2003.

The Valuation Guidelines set out a range of methodologies that should be followed to enable investments to be stated in the balance sheet at their fair value on the reporting date, except in situations where fair value cannot be reliably measured. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

In estimating fair value for an investment, the methodology applied should be appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and should use reasonable assumptions and estimates. Methodologies should be applied consistently from period to period, except where a change would result in a better estimate of fair value.

Unquoted Investments

Methodologies are classified as to primary and secondary. Wherever possible, one of the primary methodologies will be used to determine fair value.

Primary methodologies

- Price of recent investment. This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but is only considered relevant for a limited period following the date of the relevant transaction. A period of one year is used in practice. During this period, the value of the investment is assessed for changes or events that would imply impairment to the fair value.

- Earnings multiple. A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. Appropriate adjustments are made to reflect points of difference between the investee company and any comparators that have been used to determine the appropriate multiple. A marketability discount in the range of 10% to 30% is then applied to reflect illiquidity.

- Net assets. The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company to which a marketability discount is then applied.

Secondary methodologies

- Discounted cash flows of the underlying business. The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- Discounted cash flows from the investment. Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- Industry valuation benchmarks.

Valuation of Venture Capital Investments

Where an independent third party valuation exists, this will be used as the basis to derive the net attributable enterprise value of the company. In other cases, the most suitable methodology, as set out above, is used to determine this value.

This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

In situations where fair value cannot be reliably measured, the investment is reported at the carrying value at the previous reporting date, unless there is evidence that the investment has since been impaired. In such cases the carrying value is reduced to reflect the estimated extent of impairment. In estimating the extent of impairment the directors will consider, amongst other things, performance and prospects of the underlying business compared to the expectations on which the investment was based, the changes in the environment in which the business operates and deteriorations in general market conditions.

Quoted Investments

Quoted investments are valued at market price but reduced by a marketability discount where:

i. there is a risk that the holding may not be sold immediately; or
ii.there is a formal restriction on trading in the relevant securities.

Where a bid price is available, this is used to determine fair value. Otherwise, mid-market price is used.

The marketability discount will be determined by reference to the size of the holding in relation to normal trading volumes in that security and the extent of any particular trading restrictions. Discounts will typically range from 0% to 25%.

Application of Valuation Methodologies

Wherever possible, the fixed asset investments within the portfolio have been valued using a primary methodology to determine fair value. Where this primary methodology is not appropriate, a suitable secondary methodology has been applied, for example, where the date since the last investment is greater than 12 months, where the company is loss making and, therefore, an earnings multiple cannot be applied, and where the net assets of the company do not represent its underlying fair value.

Directors

Sir Andrew Colin Hugh Smith, Chairman (72)

Following a career at the Bar and in industry he became a partner of Capel Cure Myers in 1970, senior partner in 1979 and left the firm in 1988 to become chairman of the London Stock Exchange. He retired from the Exchange in 1994. He is currently chairman of British Smaller Companies VCT plc and British Smaller Technology Companies VCT plc.

Philip Simon Cammerman (61)

Has over 20 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 17 years in the venture capital industry and is executive chairman of Yorkshire Fund Managers Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including hi-tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Companies VCT plc and British Smaller Technology Companies VCT plc.

Richard Last (46)

Qualified as a chartered accountant with Coopers & Lybrand and is chief executive of Lynx plc, a computer software, systems and services group. He is chairman and non-executive director of Xpertise Group plc, an AIM-quoted IT training group and is a non-executive director of Pat Systems plc, British Smaller Companies VCT plc and British Smaller Technology Companies VCT plc. He was appointed a non-executive director of Tamesis Limited following our investment in this company.

Stephen John Noar (56)

A dentist by profession, he was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the new business and dental director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT plc. He was appointed a non-executive director of Purely Proteins Limited following our investment in this company.

Robert Martin Pettigrew (59)

A founding director of The Generics Group of companies, he has extensive experience in the commercial exploitation of new technologies. He has technical expertise in opto-electronics and fibre optics, optical component and system design, lasers and laser applications. He is a non-executive director of British Smaller Companies VCT plc and British Smaller Technology Companies VCT plc.

Secretary and Registered Office

James Ernest Peter Gervasio LL.B.
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

Registered No: 4084003

Directors' Report

For the Year to 31 December 2003

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the year ended 31 December 2003.

Principal Activity and Business Review

The Company is an investment company as defined in Section 266 of the Companies Act 1985. The Company operates as a venture capital trust and has been provisionally approved by the Inland Revenue as an authorised venture capital trust under Section 842AA of the Income and Corporation Taxes Act 1988. The directors expect that the Company will continue with this activity for the foreseeable future.

The revenue account for the year is set out on page 26.

A review of the Company's operations is given in the Chairman's statement on pages 2 to 3 and the Investment Adviser's Review on pages 4 to 11. In the context of the economic factors and market conditions prevailing during the year, the directors consider the result for the year and the financial position at the end of the year to be satisfactory.

Results and Dividends

The net revenue loss for the year after taxation amounted to £32,000 (year ended 31 December 2002: revenue return of £5,000).

The directors do not recommend the payment of a final dividend to Ordinary Shareholders (2002: nil).

The net asset value per Ordinary share at 31 December 2003 was 84.6p (2002: 91.6p). The transfer to and from reserves is given in note 13.

Share Capital and Exercise of Warrants

On 19 May 2003, following the exercise of 3,200 Warrants, the Company issued 3,200 Ordinary shares of 10p each at a price of 100p per share.

On 24 November 2003 the Company purchased for cancellation, under existing authority granted by the Shareholders, 12,500 Ordinary shares of 10p each representing 0.16% of the called-up share capital at that date, together with 2,500 Warrants at a price of 45.25p per Ordinary share and 15.50p per Warrant.

Warrants

Under the Warrant Deed dated 28 November 2000, relating to the issue of up to 6,000,000 Warrants to subscribe for Ordinary shares of 10p each in the Company, exercisable at 100p per share, Warrantholders may exercise the right to subscribe in 2004 and in this regard letters will be issued to Warrantholders.

Under the Warrant Deed dated 23 November 2001, relating to the issue of up to 2,000,000 New Warrants to subscribe for Ordinary shares of 10p each in the Company, exercisable at 100p per share, New Warrantholders may exercise the right to subscribe in each of the years 2004 or 2005 and in this regard letters will be issued to New Warrantholders.

Directors' Report

Creditor Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms (further details are given in note 11).

Directors and their Interests

The directors of the Company at 31 December 2003, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 21 to 23.

Fixed Assets

Movements on investments held as fixed assets are shown in notes 7 and 8.

Substantial Shareholdings

The directors are not aware of any substantial shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting (AGM) on page 43 of these financial statements.

As well as the ordinary business of the meeting, a resolution will be proposed as special business to renew the existing authority of the Company to purchase its own shares. Occasional market purchases by the Company to purchase its own shares provide a measure of liquidity in the market for the Company's shares and can enhance the net asset value per share for the Company's remaining Shareholders. The existing authority expires on 14 November 2004 and the resolution proposes to renew the power of the Company to purchase its own shares up to a maximum of 782,339 being 10% of the Company's share capital as at 31 December 2003 and to extend that authority for a period of 18 months commencing on 15 November 2004.

Use of Special Distributable Reserve

The special distributable reserve which was created following the approval of the Court on 7 May 2003 and the resolution of the Shareholders to cancel the Company's share premium account will be available for use for other corporate purposes of the Company. In particular, the special reserve may be utilised to eliminate losses accumulated on the capital reserve prior to 1 January 2003. As at 31 December 2002 the accumulated losses on the capital reserve (realised and unrealised) stood at £243,000. Section 266 of the Companies Act 1985 prohibits an investment company from distributing its capital profits. At such time as the board determines that it is appropriate to revoke such status by giving notice in the prescribed form to the registrar that it no longer wishes to be an investment company, such prohibition will no longer apply.

A consequence of revocation of investment company status would be that the Company would be required to prepare accounts in accordance with the requirements of Schedule IV of the Companies Act 1985 and not in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' as is currently the case. The main effect of this change is that the Company would present a profit and loss account instead of a statement of total return. In addition, all realised gains and losses, including those arising from the disposal of investments, would be included in the profit for the year and any unrealised capital gains would be excluded from the profit for the year.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP will be put to the Shareholders at the Annual General Meeting.

VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements for Venture Capital Trusts. PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio.

Post Balance Sheet Events

Significant events, including venture capital investments made following the year end, are set out in note 21 to the financial statements.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements are published at www.yorkshirefundmanagers.co.uk, which is a website maintained by the Company's Investment Adviser. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors' Report

Statement of Corporate Governance

The board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with, *The Principles of Good Governance and Code of Best Practice* issued in June 1998 ("the Combined Code").

The board has complied throughout the year, and up to the date of this report, with Section 1 of the Combined Code issued in June 1998, except for those provisions relating to the appointment of a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration or Nomination Committee (see below).

The Board

The Company has a board of five non-executive directors. Sir Andrew Hugh Smith, R Last and S J Noar are independent of the Company's Investment Adviser and that company's Technology Adviser.

There are no executive officers of the Company. Given the structure of the board and the fact that the Company's administration is conducted by Yorkshire Fund Managers Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director.

Any new appointments to the board will be subject to agreement by the whole board and subsequent confirmation by Shareholders at the following AGM. One third of all directors are subject to re-election each year. Biographical details of the two directors seeking re-election this year may be found at page 14. Due to the size of the board and the appointment and remuneration procedures currently in place, in the directors' opinion, there is no requirement for an independent Remuneration or Nomination Committee. The directors' Remuneration Report may be found on pages 21 to 23.

The full board meets at least six times per year and additionally as the need arises.

The directors have been appointed on terms which allow them to have access to the services and advice of the Company Secretary and to take independent advice at the Company's expense.

Under an agreement dated 28 November 2000, the executive functions of the Company have been subcontracted to Yorkshire Fund Managers Limited. The board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- A clearly defined investment strategy for Yorkshire Fund Managers Limited, the Investment Adviser to the Company. All decisions concerning the acquisition or disposal of investments are taken by the board after due consideration of the recommendations made by the Investment Adviser.
- Regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure.
- Regular reviews of compliance with the venture capital trust regulations to retain status.
- The Audit Committee reviews the internal control procedures adopted by the Investment Adviser and the board approves annual budgets prepared by the Investment Adviser.
- The board receives copies of the management accounts on a regular basis showing comparisons with budget. These include a report by the Investment Adviser with a review of performance. Additional information is supplied on request.

An Audit Committee was established on 24 August 2001 with written terms of reference. The members of the Committee are independent of the Investment Adviser and are Sir Andrew Hugh Smith, R Last and S J Noar. The Committee meets at least twice a year with a representative from the auditors being present each time. This Committee deals with matters relating to audit, financial reporting and internal control systems.

Internal Control

The board confirms the procedures to comply with the guidance contained within *Internal Control: Guidance for directors on the Combined Code* ("the Turnbull Report"), were in place throughout the year ended 31 December 2003 and up to the date of this report.

- The board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.
- The board has arranged its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than annually.
- There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Report and Accounts.
- The process is formally reviewed bi-annually by the board. However, due to the size and nature of the Company, the board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review.

The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Report.

The board considers reports on the main areas of risk facing the Company on a regular basis and reviews the systems for the management of risk no less frequently than annually.

The directors acknowledge their responsibility for the Company's systems of internal control and have reviewed the effectiveness of those systems for the period to the date of this report. The directors are of the opinion that the Company's systems of internal financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company. Internal control systems are designed to meet the particular risks to which the Company is exposed and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss.

The board is considering how changes in the revised Combined Code The Combined Code on Corporate Governance, issued in July 2003 which will take effect in next year's Annual Report, will apply to this Company.

Going Concern

The directors have carefully considered the going concern issue and are satisfied that the Company has sufficient cash resources to meet its obligations for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Relations with Shareholders

This year's AGM will be held on 6 May 2004. The Notice of Meeting will be circulated not less than 20 working days before the AGM in compliance with the recommendation contained in the Combined Code issued in June 1998.

The board will be present at the AGM and Shareholders will be given the opportunity to ask questions. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the AGM.

Directors' Report

Investment Policy

The Investment Adviser, Yorkshire Fund Managers Limited, is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the board regarding potential investments. Once approved, further due diligence is carried out as necessary and Inland Revenue clearance is obtained for approval as a qualifying VCT investment.

The board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from Yorkshire Fund Managers Limited as to the trading and financial position of each investee company and members of the investment team regularly attend board meetings. Monitoring reports are also received at each board meeting on compliance with VCT investment targets so that the board can ensure that the status of the Company is maintained and take corrective action where appropriate.

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to Yorkshire Fund Managers Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The board receives regular reports on the make-up and market valuation of this portfolio. Government stocks are classified as current assets due to their use as temporary holdings whilst venture capital opportunities arise.

Financial Assets

Investments made in suitable qualifying holdings will predominantly comprise Ordinary shares with, in some instances, either fixed rate coupon Preference shares or Debenture loans. Each investment is valued in accordance with the BVCA guidelines issued in June 2003, a summary of which is set out on pages 12 and 13 of this report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date. To this end, the directors consider that the carrying value of the investment portfolio at 31 December 2003 equates to its fair value.

The Company invests in financial assets to comply with the VCT legislation and provide capital growth for Shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, Preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company will have the option of repaying earlier. In some instances the redemption may carry a premium repayment.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

Details of financial assets held at 31 December 2003 can be found in the Investment Adviser's Review and notes 7 and 8 to these Financial Statements.

By order of the board

J E P Gervasio
Company Secretary
1 April 2004

Directors' Remuneration Report

The board does not have a separate Remuneration Committee due to the size of the board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee. All fees continue to be paid to the directors in accordance with the statements in the Company's Listing Particulars.

Directors and their Interests

The directors of the Company at 31 December 2003 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

	Number of Ordinary shares at 31 December 2003	**Number of Warrants at 31 December 2003**	Number of Ordinary shares at 31 December 2002	Number of Warrants at 31 December 2002
Sir Andrew Hugh Smith	**25,000**	**5,000**	25,000	5,000
P S Cammerman	**10,000**	**2,000**	10,000	2,000
R Last	**10,000**	**2,000**	10,000	2,000
S J Noar	**10,000**	**2,000**	10,000	2,000
R M Pettigrew	**27,225**	**5,445**	27,225	5,445

None of the directors have subscribed for further shares since the year end.

Except for the Warrant rights attaching to their existing shares, none of the directors held any option to acquire additional shares at any time during either year.

Brief biographical notes on the directors are given on page 14. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not generally offer compensation for loss of office when a director leaves office.

The Company had no employees in either year.

Administration

Yorkshire Fund Managers Limited, has acted as Investment Adviser and performed administrative and secretarial duties for the Company since 28 November 2000. The principal terms of the agreement are set out in note 3 to the financial statements. Yorkshire Fund Managers Limited is authorised by the Financial Services Authority. Mr Cammerman is a director of Yorkshire Fund Managers Limited and has a beneficial shareholding in its ultimate parent company, Yorkshire Enterprise Group (Holdings) Limited.

Under the Subscription Rights Agreement dated 28 November 2000, Yorkshire Fund Managers Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120p per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 50:50 between Yorkshire Fund Managers Limited and Generics Asset Management Limited. No shares have been issued under this agreement. By a Deed of Assignment dated 19 December 2003, the benefit of the Yorkshire Fund Managers Limited subscription right was assigned to Yorkshire Fund Managers Limited Trust, an employee benefit trust formed for the benefit of certain employees of Yorkshire Fund Managers Limited and associated companies. Mr Cammerman is one of the beneficiaries of that Trust.

Directors' Remuneration Report

Basic Remuneration

Total directors' remuneration for the year amounted to £33,250 (2002: £34,500) of which £33,250 (2002: £28,250) was paid to four individuals for services as directors. There were no payments to third parties in respect of directors' services (2002: £6,250).

The total fees paid in respect of individual directors were as follows:

	Year ended 31 December 2003 £	Year ended 31 December 2002 £
Sir Andrew Hugh Smith	**12,000**	12,000
J R Ashcroft (deceased)	**6,250**	7,500
P S Cammerman	**–**	–
R Last	**7,500**	7,500
S J Noar	**7,500**	7,500
R M Pettigrew	**–**	–

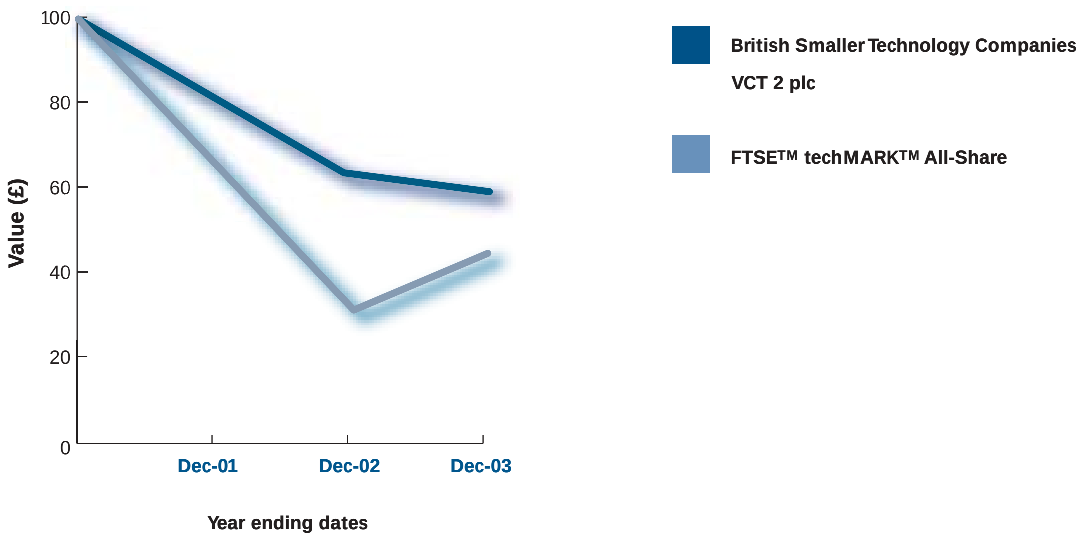
There are no directors who are remunerated as executive directors (2002: Nil). Mr Cammerman, who is a director of the Company's Investment Adviser, and Mr Pettigrew received no fees for their services as directors of the Company. None of Mr Cammerman's remuneration from Yorkshire Fund Managers Limited is considered to relate to his role with the Company.

It is the Company's policy not to provide any performance related emoluments, benefits in kind, any other emoluments or pension contributions to any director. Other than the Warrants attaching to the existing Ordinary shares, no director is entitled to shares under any share option or long-term incentive schemes.

The 'Basic Remuneration' section is the only part of the Directors' Remuneration Report required to be audited.

Performance Graph

The graph below shows a comparison between the Company's total Shareholder return performance compared with the companies in the FTSE™ techMARK™ All-Share Index for the period from the first allotment of shares to 31 December 2003. The return from the Company is based on a Shareholder receiving basic tax relief on his or her investment but ignores any capital gains rollover relief. The graph looks at the value, by the end of 2003, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ techMARK™ All-Share Index. The directors consider this to be the most appropriate published index on which to report on comparative performance given the technology focus of your Company's investment criteria, whilst recognising that the Company's investments are invariably in relatively early stage unquoted companies.



Signed on behalf of The board
Sir Andrew Hugh Smith
Director
1 April 2004

Independent Auditors’ Report

To the Members of British Smaller Technology Companies VCT 2 plc

We have audited the financial statements which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors’ remuneration report (“the auditable part”).

Respective Responsibilities of Directors and Auditors

The directors’ responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors’ remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors’ remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices board.

This report, including the opinion, has been prepared for and only for the Company’s members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors’ remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman’s statement, the investment adviser’s review, the directors’ report and the unaudited part of the directors’ remuneration report.

We review whether the statement of corporate governance reflects the Company’s compliance with the seven provisions of the Combined Code issued in June 1998 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors’ remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors’ remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Leeds
1 April 2004

Statement of Total Return (incorporating the Revenue Account)

For the year ended 31 December 2003

	Notes	31 December 2003 Revenue £000	31 December 2003 Capital £000	31 December 2003 Total £000	31 December 2002 Revenue £000	31 December 2002 Capital £000	31 December 2002 Total £000
Net losses on investments	7	**–**	**(466)**	**(466)**	–	(127)	(127)
Other capital items	12	**–**	**–**	**–**	–	–	–
Income	2	**256**	**–**	**256**	296	–	296
Investment advisory fee	3	**(131)**	**(56)**	**(187)**	(141)	(61)	(202)
Other expenses	3	**(157)**	**–**	**(157)**	(150)	–	(150)
Net return on ordinary activities before taxation		**(32)**	**(522)**	**(554)**	5	(188)	(183)
Tax on ordinary activities	4	**–**	**–**	**–**	–	–	–
Net (loss) return on ordinary activities after taxation		**(32)**	**(522)**	**(554)**	5	(188)	(183)
Dividends	5	**–**	**–**	**–**	–	–	–
Transfer (from) to reserves	13,14	**(32)**	**(522)**	**(554)**	5	(188)	(183)
Return per Ordinary share							
Basic and diluted	6	**(0.41)p**	**(6.68)p**	**(7.09)p**	0.07p	(2.48)p	(2.41)p

Notes

The revenue column of this statement is the profit and loss account of the Company.

All activity has arisen from continuing operations.

There is no difference between the net revenue (loss) return on ordinary activities before taxation and the transfer (from) to reserves in either year and their historic cost equivalents.

The accompanying notes are an integral part of these financial statements.

Balance Sheet

At 31 December 2003

	Notes	2003 £000		2002 £000	
Fixed Assets					
Investments	7,8		**2,535**		1,317
Current Assets					
Debtors	10		**26**		116
Investments	7,8		**1,026**		5,737
Cash			**3,057**		34
			4,109		5,887
Creditors: amounts payable within one year	11		**(28)**		(31)
Net Current Assets			**4,081**		5,856
Total Net Assets			**6,616**		7,173
Capital and Reserves					
Called-up share capital	12		**782**		783
Share premium account	13		**–**		6,595
Capital redemption reserve	13		**1**		–
Capital reserve					
Realised	13	**(118)**		(35)	
Unrealised	13	**(647)**		(208)	
			(765)		(243)
Warrant reserve	13		**4**		5
Special reserve	13		**6,592**		–
Other reserve	13		**1**		–
Revenue reserve	13		**1**		33
Equity Shareholders' funds	14		**6,616**		7,173
Net asset value per Ordinary share	15		**84.6p**		91.6p

Signed on behalf of the board

Sir Andrew Hugh Smith

Director

1 April 2004

The accompanying notes are an integral part of these financial statements.

Cash Flow Statement

At 31 December 2003

	Notes	31 December 2003 £000	31 December 2002 £000
Net cash outflow from operating activities	16	**(1)**	(68)
Investing activities			
Purchase of investments		**(1,606)**	(1,194)
Net cash outflow before management of liquid resources and financing		**(1,607)**	(1,262)
Management of liquid resources			
Purchase of fixed interest Government stocks		**(1,980)**	(650)
Proceeds from the sale of fixed interest Government stocks		**6,613**	594
Net cash inflow (outflow) from management of liquid resources		**4,633**	(56)
Financing			
Issue of Ordinary shares		**3**	956
Issue expenses		**–**	(41)
Purchase of own shares and associated warrants		**(6)**	–
Net cash (outflow) inflow from financing		**(3)**	915
Increase (decrease) in cash in the year	17, 18	**3,023**	(403)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1. Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis and Preparation of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain investments as stated below, and comply with the Companies Act 1985 and with applicable United Kingdom accounting standards, and with the Statement of Recommended Practice, "Financial Statements of Investment Trust Companies," issued by the Association of Investment Trust Companies in January 2003. Adoption of the Statement of Recommended Practice did not result in any changes of accounting policies.

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income is recognised on an accruals basis.

Expenses

Expenses are accounted for on an accruals basis and, except for a proportion of the investment advisory fee, are charged through the revenue account. The element of the investment advisory fee that does not relate to the administrative services is allocated between capital and revenue in accordance with the estimated long term split of returns in the form of capital gains and income respectively. The investment management fee has, therefore, been allocated 75% to capital reserve and 25% to revenue account.

Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:
- gains and losses on the realisation of investments,
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital Reserve – Unrealised

The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year end,
- foreign exchange gains and losses.

Investments

Investments in unquoted companies are treated as fixed assets and stated in the balance sheet at fair valuation in accordance with the British Venture Capital Association guidelines issued in June 2003 for the valuation of venture capital investments. Further details of the guidelines adopted by the Company can be found on pages 12 and 13 of this report.

Quoted investments are valued at market bid prices, or middle market prices where the bid price is not readily available. Venture capital investments in NASDAQ quoted companies are treated as fixed assets. Quoted investments held as Government securities are treated as current assets due to their use as temporary holdings until venture capital investment opportunities arise. Gross income derived from these securities is credited to the revenue account whereas any changes in market value are debited or credited directly to capital reserve.

1. Principal Accounting Policies (cont.)

Although the Company may hold more than 20% of the equity of certain companies, it is considered that the investments are held as part of an investment portfolio. Accordingly, and as permitted by FRS9 'Associates and Joint Ventures,' their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of our holdings represents investments in associated undertakings.

Warrants

When the Company issues Ordinary shares with Warrants attached, the Warrants are accounted for separately from the Ordinary shares as they are capable of being transferred, cancelled and redeemed independently of each other. The net proceeds attributed to the Warrants are shown as a reserve, the "Warrant reserve", which is included as part of Shareholders' funds.

Upon exercise of a Warrant, the amount previously recognised in respect of the Warrant is treated as part of the net proceeds of the shares issued. On exercise of the Warrant, this amount is transferred to a separate, non-distributable reserve within Shareholders' funds.

If a Warrant lapses unexercised, the amount previously recognised in respect of the Warrant is a realised gain and is considered to be of a capital nature which is dealt with in the capital column of the Statement of Total Return.

Where the Company repurchases and then cancels Warrants, the net cost is reflected in the capital column of the statement of total return. Any amount standing to the credit of a Warrant reserve in respect of Warrants repurchased and cancelled is released and set against the cost of repurchase in arriving at the net cost on repurchase and cancellation.

Taxation

Corporation tax payable is provided on taxable profit at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Any tax relief obtained in respect of management fees allocated to capital is reflected in the realised capital reserve and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

2.Income

	31 December 2003 £000	31 December 2002 £000
Fixed interest Government securities	**229**	274
Interest on bank deposits	**19**	22
Loan interest	**8**	–
	256	296

3. Administrative Expenses

	31 December 2003 £000	31 December 2002 £000
Investment advisory fee (including irrecoverable VAT)	**187**	202
Administration fee	**36**	35
directors' remuneration	**33**	35
Auditors' remuneration:		
audit fees	**12**	11
non-audit services	**9**	8
General expenses	**67**	61
	344	352
Allocated to capital reserve:		
Investment advisory fee	**(56)**	(61)
	288	291

During the year the Company obtained tax compliance services and VCT compliance monitoring services from the Company's auditors PricewaterhouseCoopers LLP, amounting to £3,000 (2002: £2,000) and £6,000 (2002: £6,000) respectively.

Yorkshire Fund Managers Limited provides investment advisory services to the Company under an agreement dated 28 November 2000. The agreement runs for an initial period of four years with effect from this date and may be terminated by not less than 12 months' notice given by either party at any time after the fourth anniversary of the agreement.

Yorkshire Fund Managers Limited receives an investment advisory fee, payable quarterly in advance, at the rate of 3% on the first £5m of gross funds raised and 2 1/2% of the remaining gross funds raised in excess of £5m, calculated at half-yearly intervals as at 30 June and 31 December. The investment advisory fee comprises an investment administration fee of £112,000 (2002: £121,000), including irrecoverable VAT, and an investment management fee of £75,000 (2002: £81,000). The investment administration fee is charged to the revenue account and the investment management fee is allocated between capital reserve and revenue account as described in note 1. Subject to the above and in accordance with the prospectus dated 28 November 2000, the investment advisory fee is subject to a cap such that total expenditure of the Company does not exceed 4.5% of the total funds raised.

Under this same agreement Yorkshire Fund Managers Limited also provides administrative and secretarial services to the Company for a fee of £35,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged 100% to revenue account.

The total remuneration payable to Yorkshire Fund Managers Limited in the period (excluding VAT) was £195,000 (2002: £207,000).

4. Tax on Ordinary Activities

	31 December 2003			31 December 2002		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Corporation tax payable at 19% (2002: 19.25%)	**–**	**–**	**–**	–	–	–
Net return on ordinary activities before taxation	**(32)**	**(522)**	**(554)**	5	(188)	(183)
Net return on ordinary activities multiplied by standard small company rate of corporation tax in UK of 19% (2002: 19.25%)	**(6)**	**(99)**	**(105)**	–	(36)	(36)
Effect of:						
Non taxable losses on investments (i)	**–**	**88**	**88**	–	24	24
Excess management expenses (ii)	**6**	**11**	**17**	–	12	12
Current tax charge for year	**–**	**–**	**–**	–	–	–

(i) Venture capital trusts are not subject to corporation tax on these items.
(ii) The Company has no deferred tax liability.

Deferred tax assets of £30,000 (2002: £13,000) in respect of losses have not been recognised as management do not currently believe that it is more likely than not that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 842AA of the Income and Corporation Taxes Act 1988, the Company has not provided for deferred tax on any capital gains and losses on the realisation or disposal of investments.

5. Dividends

No dividends have been paid or proposed in the year (2002: £nil).

6. Return per Ordinary Share

The basic revenue return per Ordinary share is based on net loss from ordinary activities after tax of £32,000 (2002: net return of £5,000) and 7,812,000 (2002: 7,566,000) shares being the weighted average number of shares in issue during the year.

The basic capital return per Ordinary share is based on net capital loss from ordinary activities after tax of £522,000 (2002: £188,000) and 7,812,000 (2002: 7,566,000) shares being the weighted average number of shares in issue during the year.

The company has no securities that would have a dilutive effect in either year and, hence, the basic and diluted return per share are the same.

7. Investment Portfolio

	Unquoted Investments £000	Quoted Investments £000	Total Fixed Asset Investments £000	Fixed Income Securities £000	Total Investments £000
Opening cost	1,569	–	1,569	5,693	7,262
Opening unrealised (loss) gain	(252)	–	(252)	44	(208)
Opening valuation	1,317	–	1,317	5,737	7,054
Additions at cost	1,331	275	1,606	1,980	3,586
Disposal proceeds	–	–	–	(6,613)	(6,613)
Realised losses on disposal	–	–	–	(27)	(27)
Unrealised (loss) gain in the year	(711)	323	(388)	(51)	(439)
	1,937	598	2,535	1,026	3,561
Closing cost	2,900	275	3,175	1,033	4,208
Closing unrealised (loss) gain	(963)	323	(640)	(7)	(647)
Closing valuation	**1,937**	**598**	**2,535**	**1,026**	**3,561**

Fixed income securities, consisting solely of UK Government stocks are classified as current assets due to their use as temporary holdings until venture capital investment opportunities arise.

8. Investments

The cost and carrying value of investments held at 31 December 2003, all of which are registered in England and Wales except where noted, are detailed as follows:

Venture capital investments	**2003 Cost £000**	**2003 Valuation £000**	**2003 %**	2002 Cost £000	2002 Valuation £000	2002 %
Tamesis Limited						
Ordinary shares of 0.04p each	**150**	**37**	**0.6**	150	37	0.5
Amino Holdings Limited						
Ordinary shares of 1p each	**415**	**446**	**6.7**	125	46	0.6
Sirus Pharmaceuticals Limited						
Ordinary shares of 1p each	**25**	**–**		10	10	
Convertible unsecured loan stock	**225**	**27**		240	240	
	250	**27**	**0.4**	250	250	3.5
Infinite Data Storage Limited						
(Registered in Scotland)						
Ordinary shares of £1 each	**180**	**–**		180	180	
A Preferred shares	**120**	**76**		120	120	
	300	**76**	**1.2**	300	300	4.2

8. Investments (cont.)

Venture capital investments	2003 Cost £000	2003 Valuation £000	2003 %	2002 Cost £000	2002 Valuation £000	2002 %
Vibration Technology Limited						
(Registered in Scotland)						
Ordinary shares of 1p each	**249**	**225**	**3.4**	129	129	1.8
Cambridge Cognition Limited						
Ordinary shares of £1 each	**240**	**60**	**0.9**	240	180	2.5
Oxonica Limited						
Ordinary shares of 1p each	**107**	**–**		107	107	
Convertible secured loan stock	**118**	**67**		118	118	
	225	**67**	**1.0**	225	225	3.1
ExpressOn Biosystems Limited						
(Registered in Scotland)						
Ordinary shares of 0.25p each	**150**	**78**		150	150	
Convertible unsecured loan stock	**150**	**150**		-	-	
	300	**228**	**3.5**	150	150	2.1
Broadreach Networks Limited						
Ordinary shares of 1p each	**25**	**25**		–	–	
Secured loan stock	**225**	**225**		–	–	
	250	**250**	**3.8**	–	–	–
Immunobiology Limited						
Ordinary shares of 10p each	**200**	**200**	**3.0**	–	–	–
Purely Proteins Limited						
Ordinary shares of 1p each	**200**	**200**	**3.0**	–	–	–
Self Timed Solutions Limited						
Ordinary shares of 1p each	**121**	**121**	**1.8**	–	–	–
Total excluding quoted investments	**2,900**	**1,937**	**29.3**	1,569	1,317	18.3
Ordinary shares held in NASDAQ quoted companies						
Primus Knowledge Solutions Inc.						
(Registered in USA)						
Common stock of £0.025 each	**275**	**598**	**9.0**	–	–	–
Total venture capital investments	**3,175**	**2,535**	**38.3**	1,569	1,317	18.3

8. Investments (cont.)

Venture capital investments	2003 Cost £000	2003 Valuation £000	2003 %	2002 Cost £000	2002 Valuation £000	2002 %
Government stocks						
5.0% Treasury stock 2004	**–**	**–**		2,901	2,968	41.4
6.5% Treasury stock 2003	**1,033**	**1,026**		2,792	2,769	38.6
Total Government stocks	**1,033**	**1,026**	**15.5**	5,693	5,737	80.0
Total financial asset investments	**4,208**	**3,561**	**53.8**	7,262	7,054	98.3
Cash		**3,057**	**46.2**		34	0.5
Other net current (liabilities) assets		**(2)**	**–**		85	1.2
Shareholders' funds		**6,616**	**100.0**		7,173	100.0

The revised valuation methodology, in line with the British Venture Capital Association guidelines issued during the year, represents a change in the basis of measurement of fair value and not a change in accounting policy. Accordingly, the prior year comparatives have not been restated.

In all cases, a primary or secondary methodology was used to determine a reliable fair value.

At 31 December 2003 the Company held a significant holding of at least 20% of the issued Ordinary share capital, either individually or alongside commonly managed funds, in the following companies, which are all registered in England and Wales:

Company and principal activity	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Immunobiology Limited (development of vaccines for infectious diseases)	466,666 Ordinary	12.1%	9.1%
Cambridge Cognition Limited (development of computerised psychological cognitive testing)	415,744 Ordinary	10.1%	13.7%

Notes to the Financial Statements

8. Investments (cont.)

Yorkshire Fund Managers Limited also acts as investment adviser to certain other funds under its management, namely British Smaller Companies VCT plc, British Smaller Technology Companies VCT plc and the Baring English Growth Fund (North) Limited Partnership, that have also invested in some companies within the current portfolio of this Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2003.

	British Smaller Companies VCT plc £000	British Smaller Technology Companies VCT plc £000	Baring English Growth Fund (North) £000	TOTAL £000
Tamesis Limited	350	350	325	1,025
Amino Holdings Limited	–	762	–	762
Sirus Pharmaceuticals Limited	–	250	–	250
Vibration Technology Limited	–	400	–	400
Cambridge Cognition Limited	325	–	–	325
Immunobiology Limited	–	150	–	150

9. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year.

The investments are valued in accordance with the British Venture Capital Association guidelines and, therefore, the directors consider all fixed asset investments to be carried at valuations which are not materially different to fair value.

Investments are made in a combination of equity and fixed rate financial instruments so as to comply with venture capital trust legislation and provide potential high future capital growth.

Surplus funds are held in fixed rate Government stocks until suitable qualifying investment opportunities arise.

At 31 December 2003 and 31 December 2002, the financial assets, by value, excluding short term trade debtors and creditors, as permitted by FRS13, comprised:

	2003		2002	
	£000	**%**	£000	%
Qualifying venture capital investments				
Ordinary shares	**1,990**	**30.0**	839	11.8
Loan stock	**469**	**7.1**	358	5.1
Preferred Shares	**76**	**1.2**	120	1.7
	2,535	**38.3**	1,317	18.6
Fixed interest Government stocks	**1,026**	**15.5**	5,737	80.9
Cash	**3,057**	**46.2**	34	0.5
	6,618	**100.0**	7,088	100.0

9. Financial Instruments (cont.)

There are no fixed rate financial assets in venture capital investments held at 31 December 2003 (2002: Nil). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 4.97% (2002: 5.00%) with a weighted average period of 11 months (2002: 1 year and 3 months).

Ordinary share investments are excluded from the weighted average interest rate risk analysis in both years as there is no pre-defined maturity date on these investments.

The Company invests in financial assets to comply with the venture capital trust legislation and provide capital growth for Shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by their nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company has the option of repaying earlier. Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

There are no undrawn committed borrowing facilities at either year end.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. The investments in equity and fixed interest stocks of unquoted companies the Company holds are thinly traded, and as such, the prices are more volatile than those of more widely backed securities. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for venture capital trusts.

All financial assets are predominately held in sterling. However, at 31 December 2003 the company had an investment valued at £598,000 denominated in US dollars (2002: £nil).

The Company's total return and balance sheet can be affected by foreign exchange movements due to the Company having assets denominated in currencies other than the Company's functional currency (sterling).

The board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments
- Movements in rates affecting short term timing differences
- Movements in rates affecting the income received

The Company has not hedged the sterling value of the investment priced in US dollars by the use of derivatives.

The Company might also be subject to short term exposure from exchange rate movements, for example between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to sterling on receipt.

Notes to the Financial Statements

10. Debtors

	2003	2002
	£000	£000
Amounts receivable within one year:		
Prepayments and accrued income	**26**	116

11. Creditors

	2003	2002
	£000	£000
Amounts receivable within one year:		
Accrued expenses	**28**	31

Although the Company has no trade creditors, the average number of creditor payment days during the year was 30 (2002: 38).

12. Called-up Share Capital

		2003		2002	
		Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p					
Authorised:	50,000,000 (2002: 50,000,000)				
Issued:	7,823,393 (2002: 7,832,693)	**5,000**	**782**	5,000	783

The movements in the year were as follows:

	Date	No of Shares	Share Capital £000	Share Premium* £000
As at 1 January 2003		7,832,693	783	6,595
Allotments	May 03	3,200	–	3
Share buy back	Nov 03	(12,500)	(1)	(6)
		7,823,393	782	6,592
Cancellation of the share premium account			–	6,592
As at 31 December 2003			782	–

On 24 November 2003 the Company purchased for cancellation, under existing authority granted by the Shareholders, 12,500 Ordinary shares of 10p each representing 0.16% of the called up share capital at that date, together with 2,500 warrants at a price of 45.25p per Ordinary share and 15.50p per Warrant.

On 19 May 2003, following the exercise of 3,200 warrants, the Company issued 3,200 Ordinary shares of 10p each at a price of 100p per share.

In accordance with the accounting policy stated in note 1 and the Statement of Recommended Practice, the cost of the warrants purchased by the Company of £389 (net of a release of £73 from the warrant reserve) has been charged against the capital account in the Statement of Total Return.

12. Called-up Share Capital (cont.)

All Ordinary shares have Warrants attached on a 1 for 5 basis. Each Warrant entitles the Warrantholder to subscribe in cash in whole or in part on 30 April in each of the years 2003 to 2005 for one Ordinary share at a price of 100p payable in full in cash on subscription. The Ordinary shares issued during the year resulted from the exercise of such warrants. Further details are included in the directors' Report under the heading Share Capital and Exercise of warrants.

* net of amounts attributed to Warrants.

13. Reserves

The movements in the year were as follows:

	Capital Redemption Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Warrant Reserve £000	Special Reserve £000	Other Reserve £000	Revenue Reserve £000
Beginning of the year	–	(35)	(208)	5	–	–	33
Unrealised loss on fixed asset investment portfolio	–	–	(388)	–	–	–	–
Realisation of previous year's unrealised gain/loss	–	44	(44)	–	–	–	–
Realisation of current asset investments	–	(71)	–	–	–	–	–
Unrealised gain on current asset investment portfolio	–	–-	(7)	–	–	–	–
Capital expenses	–	(56)	–	–	–	–	–
Purchase of own shares	1	–	–	–	–	–	–
Exercised warrants	–	–	–	(1)	–	1	–
Cancellation of the share premium account	–	–	–	–	6,592	–	–
Retained revenue for the year	–	–	–	–	–	–	(32)
As at 31 December 2003	**1**	**(118)**	**(647)**	**4**	**6,592**	**1**	**1**

The warrant reserve consists of the proceeds attributable to the warrants upon issue. Amounts are transferred to other reserves upon exercise, repurchase or lapsing as set out in note 1.

The special distributable reserve which was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account will be available for use for other corporate purposes of the Company.

The other reserve is non-distributable and was created upon exercise of warrants.

Notes to the Financial Statements

14. Reconciliation of Movements in Shareholders' Funds

	31 December 2003 £000	31 December 2002 £000
Opening Shareholders' funds	**7,173**	6,441
Total (loss) return after tax	**(554)**	(183)
Net proceeds of shares issue	**3**	915
Purchase of own shares and warrants	**(6)**	–
As at 31 December 2003	**6,616**	7,173

15. Net Asset Value per Ordinary Share

The basic and diluted net asset value per Ordinary share is calculated on attributable assets of £6,616,000 (2002: £7,173,000 and 7,823,000 (2002: 7,833,000) shares in issue at the year end. The Company has no securities that would have a dilutive effect in either year and, hence, the basic and diluted net asset value per share are the same.

16. Reconciliation of Net Revenue (Loss) Return on Ordinary Activities before Taxation to Net Cash Outflow from Operating Activities

	31 December 2003 £000	31 December 2002 £000
Net revenue (loss) return on ordinary activities before taxation	**(32)**	5
Decrease (increase) in prepayments and accrued income	**90**	(7)
Decrease in accruals	**(3)**	(5)
Investment advisory fees charged to capital reserve	**(56)**	(61)
Net cash outflow from operating activities	**(1)**	(68)

17. Reconciliation of Net Cash Flow to Movement in Net Funds

	31 December 2003 £000	31 December 2002 £000
Increase (decrease) in cash in the year	**3,023**	(403)
Cash (inflow) outflow from (decrease) increase in liquid resources	**(4,633)**	56
Changes in net funds resulting from cash flows	**(1,610)**	(347)
Other non-cash items:		
Unrealised (loss) gain on fixed interest quoted investments	**(78)**	50
Net funds at beginning of year	**5,771**	6,068
Net funds at 31 December 2003	**4,083**	5,771

18. Analysis of Net Funds

	1 January 2003 £000	Cash flow £000	Other non cash changes £000	31 December 2003 £000
Cash	34	3,023	–	**3,057**
Fixed interest quoted investments	5,737	(4,633)	(78)	**1,026**
	5,771	(1,610)	(78)	**4,083**

19. Financial Commitments

Investments totalling £120,000 (2002: £nil) approved by the board of directors at 31 December 2003, have not been reflected in these accounts. Since the year end further investments totalling £60,000 (2002: £554,000) have been approved by the board.

20. Related Party Transactions

Mr Cammerman is a director of Yorkshire Fund Managers Limited, the Investment Adviser to the Company. The ultimate parent company of Yorkshire Fund Managers Limited is Yorkshire Enterprise Group (Holdings) Limited, in which Mr Cammerman has a beneficial shareholding. No such beneficial shareholding existed in the prior year.

Until 22 November 2002 Mr Pettigrew was a director of Generics Asset Management Limited, the technology adviser to Yorkshire Fund Managers Limited.

20. Related Party Transactions (cont.)

During the year Yorkshire Fund Managers Limited received remuneration amounting to £195,000 (2002: £207,000) in respect of services provided in accordance with the Investment Advisory Agreement dated 28 November 2000. At 31 December 2003 there was an amount of £7,482 (including irrecoverable VAT of £780) owing from Yorkshire Fund Managers Limited (2002: £nil owed to or from Yorkshire Fund Managers Limited).

Under the Subscription Rights Agreement dated 28 November 2000 Yorkshire Fund Managers Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120p per Ordinary share multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 50:50 as between Yorkshire Fund Managers Limited and Generics Asset Management Limited. By a Deed of Assignment dated 19 December 2003 the benefit of the Yorkshire Fund Managers Limited subscription right was assigned to Yorkshire Fund Managers Limited Trust. Mr Cammerman is one of the beneficiaries of that Trust. No entitlement has vested in either year.

Mr Last, a director of the Company, is a non-executive director of Tamesis Limited. The appointment was made pursuant to the Subscription Rights agreement following the investment made in that company. During the year Mr Last received £5,000 (2002: £7,000) from Tamesis Limited in respect of his services.

Mr Noar, a director of the Company, is a non-executive director of Purely Proteins Limited. The appointment was made during the year pursuant to an agreement following the investment made in that company. During the year Mr Noar received £2,500 from Purely Proteins Limited in respect of his services (2002: £nil).

21. Post Balance Sheet Events

On 12 March 2004, the Company disposed of its entire holding in Sirus Pharmaceuticals Limited, for deferred Ordinary shares in the purchasing company, Arakis Limited. The consideration will be in the form of shares contingent on certain milestones being reached in the future. Based on current information, the minimum value of shares receivable is currently estimated to be £18,000.

Notice of the Annual General Meeting

No: 4084003

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkley Square, London, W1J 6HE on 6 May 2004 at 1.00 pm for the following purposes:

To consider and, if thought fit, pass the following resolutions:

As Ordinary Business

ORDINARY RESOLUTIONS

1. That the Annual Report and Accounts for the year ended 31 December 2003 be received.

2. That the directors' Remuneration Report be approved.

3. That Mr S Noar who retires by rotation be re-elected as a Director.

4. That Mr R M Pettigrew who retires by rotation be re-elected as a Director.

5. That PricewaterhouseCoopers LLP be re-appointed as auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.

As Special Business

SPECIAL RESOLUTION

6. THAT in substitution for any existing authority the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) of Ordinary Shares of 10p in the capital of the Company ('Ordinary Shares') provided that:

   6.1 the maximum aggregate number of Ordinary Shares authorised to be purchased is 782,339;

   6.2 the minimum price which may be paid for an Ordinary Share is 10p;

   6.3 the maximum price which may be paid for an Ordinary Share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

   6.4 this authority shall take effect from 15 November 2004 and shall expire on 14 May 2006; and

   6.5 the Company may make a contract or contracts to purchase Ordinary Shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

Notice of the Annual General Meeting

By order of the board

J E P Gervasio
Secretary
1 April 2004

Registered office:
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

Notes:

(1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he so wishes.

(3) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those members entered on the Company's register of members not later than 1.00 pm on 4 May 2004, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

(4) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he wishes to do so.

(5) Biographical details concerning the two directors retiring by rotation and offering themselves for re-election can be found at page 14 of the Annual Report.

Financial Summary

	Year ended 31 December 2003	Year ended 31 December 2002	Period ended 31 December 2001
Income	£256,000	£296,000	£288,000
Net revenue (loss) return before tax	£(32,000)	£5,000	£35,000
Net revenue (loss) return after tax	£(32,000)	£5,000	£28,000
Revenue (loss) return per share	(0.41)p	0.07p	0.49p
Total (loss) return per share	(7.09)p	(2.41)p	(0.48)p
Dividend per share	–	–	–
Net assets	£6,616,000	£7,173,000	£6,441,000
Net asset value per share	84.6p	91.6p	93.7p
Number of qualifying investments	13	8	3
Value of qualifying investments	£2,535,000	£1,317,000	£300,000

Advisers to the Company

- Investment Adviser and Custodian

Yorkshire Fund Managers Limited
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

- Registrars

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

- Solicitors

Keeble Hawson
Protection House
16-17 East Parade
Leeds
LS1 2BR

Pinsents
1 Park Row
Leeds
LS1 5AB

- Stockbrokers and Quoted Investments Adviser

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds
LS1 4LX

- Independent Auditors

PricewaterhouseCoopers LLP
Benson House
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