

CHAIRMAN'S STATEMENT

The six months covered by this reporting period have remained difficult in a depressed economic and market environment - particularly for technology businesses. Notwithstanding this, after adjusting for new funds raised in the period, the net asset value of your Company has suffered only a minimal reduction of 2%. This compares to a reduction in the Techmark Index of 32% in the same period. Any early signs of recovery have proved fragile and the decline of corporate asset values in the US has had an impact on UK businesses, an inevitable consequence of today's increasingly global markets. At this stage, we remain cautious about the current economy and the markets in which we are investing.

Investment Valuations

A total of £664,000 was invested in four companies in the first six months of this financial year. With market sentiment toward technology based companies remaining weak your Board has borne this in mind when valuing the portfolio at this current time. However, with the portfolio being relatively young and buy-in values already discounted at the time of investment it has been felt appropriate to leave all but one investment at cost. The write down on this latter investment, Tamesis Limited, in the period was £75,000, thus resulting in a full provision against this investment on a cumulative basis.

Brief details of the companies within the existing portfolio can be found in this report.

Financial Results

The net revenue return for the period was a loss of £10,000, or 0.14p per share. After taking account of the loss on capital account the total return was a loss of £124,000, or 1.69p per share. No dividend is being declared in line with the stated aim of the Company.

Fund raising and Shareholder liquidity

I reported briefly in the last Annual Report on the progress of the top-up fund raising under the prospectus dated 23 November 2001. The offer closed on 31 May 2002 with some £922,000 raised. This was a disappointing result but not totally unexpected in the difficult market conditions.

Your Board has been looking at ways in which Shareholder liquidity can be improved given the inherent illiquidity in venture capital trust shares. To this end, resolutions will be put to a forthcoming Extraordinary General Meeting (EGM) on 14 November 2002 to enable the share premium account to be converted into a special distributable reserve for the purpose of buying back shares from Shareholders who have a need to realise their holding. Necessarily, such repurchases would be carried out on a discretionary basis and only at prices which did not imply dilution of other Shareholders' interests.

The notice of the EGM is enclosed with this interim report along with a recommendation from the directors to support the resolutions. Your Board and its Investment Adviser, Yorkshire Fund Managers Limited, will continue to look at ways of improving Shareholder liquidity.



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Outlook

Although the current economic climate and general market sentiment, particularly toward technology-based businesses, has depressed corporate asset values, your Board sees this as an opportunity to take equity stakes in high-growth potential companies where returns are not expected in the short-term. The portfolio is still young with over £6m still available for investment at these lower values offering better opportunity for longer-term capital growth to our Shareholders. Short-term values may yet continue to fall but this is not necessarily of concern given the longer-term view taken by your Company. The key consideration is to ensure adequate future funding streams are in place to fund the investee companies through to market acceptance of their product.

Sir Andrew Hugh Smith
3 October 2002

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 PLC

UNAUDITED FINANCIAL STATEMENTS

for the 6 months ended 30 June 2002

Summarised Statement of Total Return

		Unaudited 6 months ended 30 June 2002 £000	Unaudited 6 months ended 30 June 2001 £000	Audited Year ended 31 December 2001 £000
	Notes			
Revenue				
Gross revenue		145	106	288
Administrative expenses		(155)	(90)	(253)
Taxation	2	-	(3)	(7)
		<u>(10)</u>	<u>13</u>	<u>28</u>
Capital				
Realised (losses) gains (net)		(5)	-	72
Unrealised losses (net)		(74)	(39)	(85)
Management fee allocated to capital		(35)	(15)	(49)
Tax effect of capital items		-	3	7
		<u>(114)</u>	<u>(51)</u>	<u>(55)</u>
Total return		<u>(124)</u>	<u>(38)</u>	<u>(27)</u>
Appropriated:				
Revenue				
Transfer (from) to revenue reserve		<u>(10)</u>	<u>13</u>	<u>28</u>
Capital				
Decrease on reserves		<u>(114)</u>	<u>(51)</u>	<u>(55)</u>
Total return per Ordinary share				
Revenue		(0.14)p	0.29p	0.49p
Capital	3	<u>(1.55)p</u>	<u>(1.12)p</u>	<u>(0.97)p</u>
		<u>(1.69)p</u>	<u>(0.83)p</u>	<u>(0.48)p</u>

Notes

The revenue section 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 return on ordinary activities before taxation and the transfer (from) to revenue reserves for the financial period and their historic cost equivalents.

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 PLC UNAUDITED FINANCIAL STATEMENTS

for the 6 months ended 30 June 2002

Summarised Balance Sheet

	Unaudited 30 June 2002 £000	Unaudited 30 June 2001 £000	Audited 31 December 2001 £000
Notes			
Fixed assets			
Investment portfolio	889	-	300
Current assets			
Short-term investments	5,733	6,147	5,631
Debtors	207	34	109
Cash and short-term deposits	419	122	437
	6,359	6,303	6,177
Creditors: amounts payable within one year	(36)	(17)	(36)
Net current assets	6,323	6,286	6,141
Total net assets	7,212	6,286	6,441
Capital and reserves			
Called-up share capital	780	673	688
Share premium account	6,577	5,651	5,780
Capital reserve	(168)	(51)	(55)
Warrant reserve	5	-	-
Revenue reserve	18	13	28
Equity shareholders' funds	7,212	6,286	6,441
Net asset value per Ordinary share	4 92.5p	93.4p	93.7p

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 PLC UNAUDITED FINANCIAL STATEMENTS

for the 6 months ended 30 June 2002

Summarised Cash Flow Statement

	Unaudited 6 months ended 30 June 2002 £000	Unaudited 6 months ended 30 June 2001 £000	Audited Year ended 31 December 2001 £000
Net cash outflow from operating activities	(143)	(15)	(87)
Financial investment	(664)	-	(375)
Management of liquid resources	(105)	(6,186)	(5,569)
Net cash outflow before financing	(912)	(6,201)	(6,031)
Financing	894	6,323	6,468
(Decrease) increase in cash	(18)	122	437

BRITISH SMALLER TECHNOLOGY COMPANIES VCT2 PLC

UNAUDITED FINANCIAL STATEMENTS

for the 6 months ended 30 June 2002

Notes to the Financial Statements

1. The interim financial statements have been prepared on a basis consistent with the statutory financial statements for the year ended 31 December 2001. The interim financial statements, which have been approved by the directors, are unaudited and do not constitute full financial statements as defined in section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2001 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2001 which have been reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

2. The taxation charge comprises:

	Unaudited 6 months ended 30 June 2002 £000	Unaudited 6 months ended 30 June 2001 £000	Audited Year ended 31 December 2001 £000
Profit on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 20% (2001: 20%)	(25)	(8)	(5)
Effect of:			
Non taxable losses on investments (i)	16	8	3
Movement in excess management expenses (ii)	9	-	2
Current tax charge for period	-	-	-

(i) Venture capital trusts are not subject to corporation tax on these items.

(ii) The Company has no deferred tax liability.

3. The revenue return per share is based on net revenue loss from ordinary activities after tax attributable to Shareholders of £10,000 (30 June 2001: net revenue £13,000 and 31 December 2001: net revenue £28,000) and on 7,314,199 shares (30 June 2001: 4,551,912 and 31 December 2001: 5,682,000), being the weighted average number of shares in issue during the period. There is no difference between the revenue return per share and the fully diluted revenue return per share in either period.

4. The net asset value per Ordinary share is calculated on attributable assets of £7,212,000 and 7,797,673 shares in issue at the period end (30 June 2001: £6,286,000 and 6,727,878 shares, 31 December 2001: £6,441,000 and 6,876,133 shares).

5. Copies of the interim report can be obtained from the Company's registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ.



INVESTMENT PORTFOLIO

The current make-up of the portfolio is shown below:

Date of initial investment	Name of Company	Location	Industry Sector	Investment at Cost	Value of Investment at 30 June 2002
July 2001	Tamesis Ltd	London	Software	£150,000	£0
Sept 2001	Amino Holdings Ltd	Cambridge	Electronics	£125,000	£125,000
Sept 2001	Syngenix Ltd	Cambridge	Healthcare	£100,000	£100,000
Mar 2002	Infinite Data Storage Ltd	Dunfermline	Software	£187,500	£187,500
Mar 2002	Vibration Technology Ltd	Glasgow	Industrial Automation	£129,258	£129,258
May 2002	Cambridge Cognition Ltd	Cambridge	Software	£240,000	£240,000
May 2002	Oxonica Ltd	Oxford	Chemical	£107,131	£107,131
Total				£1,038,889	£888,889

INVESTMENT PORTFOLIO

Tamesis Limited (London)

www.tamesis.com

Tamesis develop and sell real-time trading software for investment banks. The investment banking sector has been a difficult market over the last year making the sales process very protracted. The company has taken action to adapt to these conditions.

Amino Holdings Limited (Cambridge)

www.aminocom.co.uk

Amino is a leading developer and licensor of technologies for the secure and rapid deployment of networked, multimedia solutions. In a difficult market, the newly appointed Sales Director has helped improve focus, which has led to the development of a strong pipeline with a number of blue chip clients.

Syngenix Limited (Cambridge)

www.syngenix.com

Syngenix develops targeted drug delivery and anti-sense vectors. The development programme continues with excellent scientific results and technical progress. As the company moves into the next stage of development it is, as planned, utilising the second tranche of investment monies from shareholders.

Infinite Data Storage Limited (Dunfermline)

www.infinitedatastorage.com

Infinite Data Storage design consumer electronics products based on optical storage. Their first product, Samba, is the world's only CD writer capable of writing CDs whilst operating on battery power and is being sold both as a computer memory peripheral and as a portable MP3 player. Samba is being distributed by Imation in the USA and Waitec in Europe. Their second product is due for launch early in 2003.

Vibration Technology Limited (Glasgow)

www.vibtech.co.uk

Vibration Technology is developing a new generation of wireless seismic exploration systems for onshore seismic surveys. During the past six months the company closed a £4m funding round. This has secured the necessary funding to ensure that the product development program can be completed and then commercially launched.

Cambridge Cognition Limited (Cambridge)

www.camcog.com

Cambridge Cognition provides a range of software products aimed at the detection, diagnosis, monitoring and evaluation of central nervous system disorders. In particular, they can be used in the early diagnosis of Alzheimers disease. Since investment the company has expanded its sales force and is pursuing product development of additional tests.

Oxonica Limited (Oxford)

www.oxonica.com

Oxonica operates in the new area of Nanotechnology, which involves creating atomic scale products or particles. They currently have 15 filed patents and are conducting field trials for products in areas such as catalysis, medical diagnostics, healthcare and personal care (e.g. cosmetics).

DIRECTORS AND ADVISERS

Directors

Sir Andrew Colin Hugh Smith
John Railton Ashcroft
Philip Simon Cammerman
Richard Last
Stephen John Noar
Robert Martin Pettigrew

Secretary and Registered Office

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

Investment Adviser

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

Stockbrokers and Quoted Investment Adviser

Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds
LS1 4LX

Registrars

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

Auditors

PricewaterhouseCoopers
Benson House
33 Wellington Street
Leeds
LS1 4JP

Solicitors

Pinsent Curtis Biddle
1 Park Row
Leeds
LS1 5AB

VCT Status Adviser

PricewaterhouseCoopers
1 Embankment Place
London
WC2N 6RH

Keeble Hawson

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

Bankers

The Royal Bank of Scotland plc
5 Church Street
Sheffield
S1 1HF