

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 PLC

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CHAIRMAN'S STATEMENT

The economic conditions in the six months to 30 June 2003 have remained difficult, and for relatively small and early stage technology companies this has proved a restriction on their short-term growth prospects. In these conditions and with a portfolio of relatively new investments, the Board feels unable to make any upward revisions in investee values. On the other hand, under the valuation guidelines of the British Venture Capital Association (BVCA), it is necessary to take account of under performance against plan by making a provision against certain investments.

The effect of this in the six months to 30 June 2003 has been to reduce the net asset value by 3.8%. This compares to a 5% increase in the FTSE™ techMARK™ All-Share index over the same period, which, given the focus of businesses that your Company is looking to invest in, remains the most appropriate quoted index benchmark.

Investment Operations

During the period £795,000 was invested in five companies. Two of these were follow-on investments in businesses within the existing portfolio, Amino Holdings and Vibration Technology. Both were made as part of a larger syndicate to support the further expansion of these two businesses.

The three new investments were made in Broadreach Networks Limited, Amacis Group Limited and Immunobiology Limited.

Broadreach Networks provides broadband access to the public through both fixed access sites and wireless "hot spots". A total investment of £250,000 was approved by your Board in February 2003 with the first tranche of £125,000 invested that same month as part of a larger syndicate of institutional and trade investors. Following the company's progress since investment and the achievement of certain key objectives, the drawdown of the remaining balance of the initial commitment is expected shortly.

Amacis Group is a leading provider of electronic communication management solutions to global organisations. An investment of £275,000 was made in April 2003 as part of a £1.55m funding package.

The £100,000 investment in Immunobiology was made in June 2003 as part of a larger funding package to finance the continuing development of the company, which specialises in the development of vaccines for the treatment of infectious diseases and cancers.

Financial Results

The result for the period was a total return loss of 3.54 pence per share with a revenue loss of 0.42 pence per share and a capital loss of 3.12 pence per share. The net asset value at 30 June was 88.1 pence per share.

As mentioned above, provisions against investments have been made in accordance with the BVCA valuation guidelines as at 30 June 2003. Shareholders should be aware that, with effect from 1 August of this year, these guidelines have been revised, particularly in so far as they relate to early stage technology investments. The move is away from a cost basis and standard provisioning in bands of 25% to more intuitive measurements of a company's performance, discounted cash flows and other perceptions of value.

Liquid Resources and Rate of Investment

Liquid fund resources at the period end amounted to just under £5m in a mixture of cash and gilt investments. Therefore, your Company still has a significant level of funds to invest in growing businesses at a time when entry valuations have become much more attractive. Your Board is looking to invest in some later stage technology companies over the coming period that will complement the early stage businesses in the current portfolio.

The VCT legislation requires that, by 31 December 2003, at least 70% of the Company's investments must be in qualifying holdings (as defined by the legislation). However, it is also important to ensure that the quality of investments and the need to retain sufficient reserves for follow-on investments is not compromised by the need to meet legislative requirements.

Accordingly, if necessary, part of the Company's liquid funds will be deposited in a non-interest bearing bank account, which does not represent an investment within the legislative definitions. This will result in a small reduction in the Company's income but will have the more important advantage of retaining Shareholder tax benefits whilst permitting the construction of a balanced portfolio of technology-based companies that will offer Shareholders the opportunity for longer term capital growth.

Shareholder Relations

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. This is in continuance of your Board's active policy of improving Shareholder liquidity in what is, by nature, an illiquid market through a combination of enhancing information to Shareholders and providing a mechanism to realise holdings in the last resort, albeit to a limited amount.

The special distributable reserve created on the cancellation of the share premium account as part of the process for enabling the buy back of shares will also be available for other corporate purposes. In particular, your Board is proposing that it may be utilised to eliminate losses accumulated on capital reserve. This will better enable the Company to distribute gains on future realisations to Shareholders.

Over the last six months, your Board's Investment Adviser, Yorkshire Fund Managers, has held three investor workshops - in London, Leeds and Birmingham. Over 100 Shareholders from across the three VCTs managed by Yorkshire Fund Managers have attended. It has become clear that this provides a much better forum for Shareholders to voice their comments than the Annual General Meeting. The final workshop for 2003 will be held in Edinburgh on 15 October 2003.

Outlook

Continued progress in our portfolio of investments depends as much on the progress of the US and Global economies as on the efforts of the companies and their management. With a good deal of the international political uncertainty removed during the earlier part of 2003, there are early signs of recovery in some economies, notably the UK and the US.

Currently, there are excellent opportunities to invest in both early and later stage businesses that can demonstrate clear innovative advantage in their current or future market. We look to work with strong syndicates in making new investments and to ensure that we have adequate reserves to support investee companies on their road to market acceptance of their products.



Sir Andrew Hugh Smith
2003

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UNAUDITED FINANCIAL STATEMENTS
for the 6 months ended 30 June 2003

Statement of Total Return

	Notes	Unaudited 6 months ended 30 June 2003 £000	Unaudited 6 months ended 30 June 2002 £000	Audited Year ended 31 December 2002 £000
Revenue				
Gross revenue		128	145	296
Administrative expenses		(161)	(155)	(291)
Taxation	2	<u>-</u> <u>(33)</u>	<u>-</u> <u>(10)</u>	<u>-</u> <u>5</u>
Capital				
Realised gains (losses) (net)		68	(5)	(4)
Unrealised losses (net)		(271)	(74)	(123)
Management fee allocated to capital		<u>(39)</u> <u>(242)</u>	<u>(35)</u> <u>(114)</u>	<u>(61)</u> <u>(188)</u>
Total return		<u>(275)</u>	<u>(124)</u>	<u>(183)</u>
Appropriated:				
Revenue				
Transfer (from) to revenue reserve		<u>(33)</u>	<u>(10)</u>	<u>5</u>
Capital				
Decrease on reserves		<u>(242)</u>	<u>(114)</u>	<u>(188)</u>
Basic and diluted return per Ordinary share				
Revenue		(0.42)p	(0.14)p	0.07p
Capital		<u>(3.12)p</u>	<u>(1.55)p</u>	<u>(2.48)p</u>
	3	<u>(3.54)p</u>	<u>(1.69)p</u>	<u>(2.41)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.

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Balance Sheet

	Notes	Unaudited 30 June 2003 £000	Unaudited 30 June 2002 £000	Audited 31 December 2002 £000
Fixed assets				
Investment portfolio		<u>1,938</u>	<u>889</u>	<u>1,317</u>
Current assets				
Short-term investments		2,640	5,733	5,737
Debtors		99	207	116
Cash and short-term deposits		<u>2,324</u>	<u>419</u>	<u>34</u>
		5,063	6,359	5,887
Creditors: amounts payable within one year		<u>(100)</u>	<u>(36)</u>	<u>(31)</u>
Net current assets		<u>4,963</u>	<u>6,323</u>	<u>5,856</u>
Total net assets		<u>6,901</u>	<u>7,212</u>	<u>7,173</u>
Capital and reserves				
Called-up share capital		784	780	783
Share premium account	4	-	6,577	6,595
Capital reserve		(485)	(168)	(243)
Revenue reserve		-	18	33
Warrant reserve		4	5	5
Special reserve	4	6,597	-	-
Other reserve		1	-	-
Equity shareholders' funds		<u>6,901</u>	<u>7,212</u>	<u>7,173</u>
Net asset value per Ordinary share	5	<u>88.1p</u>	<u>92.5p</u>	<u>91.6p</u>

Signed on behalf of the Board



Sir Andrew Hugh Smith
Chairman
19 September 2003

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Summarised Cash Flow Statement

	Unaudited 6 months ended 30 June 2003 £000	Unaudited 6 months ended 30 June 2002 £000	Audited Year ended 31 December 2002 £000
Net cash inflow (outflow) from operating activities	14	(143)	(68)
Financial investment	<u>(795)</u>	<u>(664)</u>	<u>(1,194)</u>
Net cash outflow before management of liquid resources and financing	(781)	(807)	(1,262)
Management of liquid resources	<u>3,068</u>	<u>(105)</u>	<u>(56)</u>
Net cash inflow (outflow) before financing	2,287	(912)	(1,318)
Financing	<u>3</u>	<u>894</u>	<u>915</u>
Increase (decrease) in cash	<u>2,290</u>	<u>(18)</u>	<u>(403)</u>

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 PLC
UNAUDITED FINANCIAL STATEMENTS
for the 6 months ended 30 June 2003

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 2002. 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 2002 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2002 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 2003 £000	Unaudited 6 months ended 30 June 2002 £000	Audited Year ended 31 December 2002 £000
Profit on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 19% (2002: 20%)	(52)	(25)	(36)
Effect of:			
Non taxable losses on investments (i)	39	16	24
Movement in excess management expenses (ii)	<u>13</u>	<u>9</u>	<u>12</u>
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 basic revenue return per share is based on net loss from ordinary activities after tax attributable to shareholders of £33,000 (30 June 2002: net loss £10,000 and 31 December 2002: net revenue £5,000) and on 7,790,000 shares (30 June 2002: 7,314,000 and 31 December 2002: 7,566,000, being the weighted average number of shares in issue during the period. The Company has no securities that would have a dilutive effect and hence basic and diluted return per share are the same.
4. 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. 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.
5. The net asset value per Ordinary share is calculated on attributable assets of £6,901,000 and 7,836,000 shares in issue at the period end (30 June 2002: £7,212,000 and 7,798,000 shares, 31 December 2002: £7,173,000 and 7,833,000 shares).
6. 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:

<i>Name of Company</i>	<i>Date of initial Investment</i>	<i>Location</i>	<i>Industry Sector</i>	<i>Investment at Cost</i>	<i>Investment at Valuation</i>
Amacis Group Ltd	Apr 2003	Belfast	Software	£275,000	£275,000
Amino Holdings Ltd	Sep 2001	Cambridge	Electronics	£300,000	£220,455
Broadreach Networks Ltd	Feb 2003	London	Telecoms	£125,000	£125,000
Cambridge Cognition Ltd	May 2002	Cambridge	Software	£240,000	£180,000
ExpressOn Biosystems Ltd	Oct 2002	Midlothian	Healthcare	£150,000	£150,000
Immunobiology Ltd	Jun 2003	Cambridge	Healthcare	£100,000	£100,000
Infinite Data Storage Ltd	Mar 2002	Dunfermline	Software	£299,999	£150,000
Oxonica Ltd	May 2002	Oxford	Chemical	£224,838	£224,888
Sirus Pharmaceuticals Ltd (formally Syngenix Ltd)	Sep 2001	Cambridge	Healthcare	£250,000	£187,500
Tamesis Ltd	Jul 2001	London	Software	£150,000	£75,000
Vibration Technology Ltd	Mar 2002	Glasgow	Industrial Automation	£249,997	£249,997
Total as at 30 June 2003				£2,364,834	£1,937,790
Investments since July 2003					
ExpressOn Biosystems Ltd	July 2003	Midlothian	Healthcare	£75,000	£75,000
Total Investments				£2,439,834	£2,012,790

INVESTMENT PORTFOLIO

Amacis Group Limited (Belfast)

www.amacis.com

Amacis uses a categorisation engine to identify the content of digital documents and subsequently route them according to pre-defined rules. Amacis' product portfolio manages all forms of internal and external electronic communications including email, webforms, secure messaging, intelligent self-service, SMS and webchat in multiple languages. Amacis' solutions deliver productivity, provide management information and control and reduce the costs associated with sending and responding to electronic communications. Key customers include HSBC Bank, Orange and Yahoo.

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. Since we last reported the company has developed and released a series of low cost, small form set-top-boxes. As well as being critically acclaimed and winning a prestigious Reddot design award the company has built a substantial order pipeline for its products.

Broadreach Networks Limited (London)

www.broadreachnet.com

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.

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. Further institutional investment has been made in the company in order to provide adequate support into its various markets, with progress in the pharmaceutical/clinical area being evident in the early stages of this marketing activity.

ExpressOn Biosystems Limited (Midlothian)

www.expresson.co.uk

Expresson have developed a drug discovery tool called ACCESSarray based on anti-sense technology. This allows rapid identification of particular RNA sequences for use in functional biology, target validation, probe-design and new lead discovery applications for the pharmaceutical industry.

Immunobiology Limited (Cambridge)

www.immunobiology.co.uk

Immunobiology is developing vaccines using heat shock proteins for diseases such as antibiotic resistant tuberculosis, which are normally very difficult to treat. Following excellent trial results from their tuberculosis vaccine, the company is now developing a vaccine against a viral pathogen to further demonstrate the efficacy of the technology.

Infinite Date 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 sold both as a computer memory peripheral and as a portable MP3 player. The company continues to work closely with global consumer electronic partners for the development of further products.

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). Oxonica has a strong industrial and venture capital investor base and early in 2003 won the prestigious "Deal of the Year" award at the European Technology Forum in London.

INVESTMENT PORTFOLIO

Sirus Pharmaceuticals Limited (formally Syngenix Limited) (Cambridge)

www.syngenix.com

Sirus is a drug delivery company focussing on pain management using a range of technologies including sub-lingual delivery and axonal transport. Their first formulation of fentanyl for breakthrough pain has now entered clinical trials.

Tamesis Limited (London)

www.tamesis.com

Tamesis develop and sell real-time trading software for investment banks. Whilst the banking sector has been a difficult market over the last couple of years the company has recently signed a major contract which is in the process of being rolled out.

Vibration Technology Limited (Glasgow)

www.vibtech.co.uk

Vibration Technology is developing a new generation of wireless seismic exploration systems for onshore seismic surveys. The recent fielding of the system was well received and the company continues to focus its resources on its sales strategy.