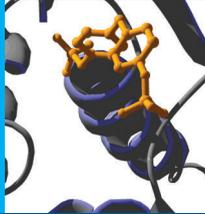


Interim Report
for the period from
1 January 2005
to 30 June 2005



BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT



plc

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Chairman's Statement

The general performance of the investment portfolio in the first half of the year has been satisfactory. However, the reduction in value of two investments in particular has resulted in a 10% like-for-like fall in net asset value over that period. Although disappointing, this is not unexpected for a relatively young portfolio that is still developing and where the encouraging performances of some of the newer investments has yet to feed through into the valuations.

Operations

As previously stated, the Board's investment strategy is to reserve sufficient funding to support the current portfolio where it is merited and selectively target later stage innovative companies for new investment opportunities. During the period under review, a total of £466,000 was invested in three businesses, one of which is new to the portfolio.

Vibration Technology Limited continues to show signs of progress having recently completed a trial of its Infinite Telemetry System with NASA in Arizona, USA. Your Company invested a further £150,000 in the first closing of a £5 million funding round.

"The successful flotation of Oxonica shows that there is still market appetite for growing, innovative businesses."

Earlier this year, your Company invested a further £16,000 in Oxonica Limited as its share of a £2.5 million rights issue. Oxonica is involved in the development of innovative commercial solutions for international markets using its expertise in the design and application of nanomaterials. I am pleased to report that following the period end, on 14 July 2005, Oxonica was successfully admitted to AIM, raising £7.5 million at a placing price of 95.8 pence per share. The share price has increased significantly since that date.

The new investment was £300,000 in Digital Healthcare Limited just before the end of the period. This company is well known to your Board and its Investment Adviser through an existing investment by British Smaller Technology Companies VCT plc, which also added to its earlier investment. Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric sectors of the healthcare market. The investment was part of a £3 million funding round supported by a number of new investors.

During the period, your Board took the opportunity to realise approximately 10% of your Company's holding in Cozart plc. The disposals were realised at an average value of 42.8 pence per share compared to the acquisition cost of 30.0 pence per share.

Chairman's Statement

Following the period end, your Company's investment in Tamesis Limited was realised through the acquisition of that company by Patsystems plc, an AIM quoted company whose business is the global supply of electronic trading technology. Consideration is by way of a small initial cash payment, with further consideration in the form of Patsystems' shares based on profit performance over the next two years. Mr Last, a director of this Company and your board's representative non-executive director on the board of Tamesis, is also a director of Patsystems plc. Mr Last played no part in any board discussions about the transaction and had no involvement in the due diligence process.

Within the unquoted portfolio, the main valuation movements were in Broadreach Networks Limited and ExpressOn Biosystems Limited. The fall in the value of Broadreach reflects the price of a recent transaction in this company's shares. The full impairment against ExpressOn Biosystems is necessary following the failure of the company to complete its funding round when one of the syndicate members withdrew at the final moment, thus causing the company to be placed into receivership.

Financial Results

The introduction of new Financial Reporting Standards (FRS), and particularly FRS 26 which

concerns the measurement of financial assets, has had an effect on these interim results. The main difference is that all valuation movements, including unrealised gains above cost which were previously taken to the revaluation reserve, are now taken through the profit and loss account. The revaluation reserve no longer exists. These changes have no effect on the Company's distributable reserves and its ability to pay dividends in the future.

FRS 21, which concerns the accounting treatment of events after the balance sheet date, means that dividends proposed are recognised in the period in which the obligation arises. Therefore, the prior year period has been restated with the 2004 dividend now accounted for in the current year. The restated 2004 net asset value is 97.1 pence per share. There is no net effect on the current year net asset value.

The result for the period was a loss of £652,000 equivalent to 8.41 pence per share. Net asset value fell to 83.8 pence per share from the equivalent 92.1 pence per share at 31 December 2004.

Cash and liquid investments, in the form of UK Government gilts, totalled £2.7 million at the period end. Your Board considers this is satisfactory to support the current portfolio, make selective new investments and meet the foreseeable operating costs of the Company.

Chairman's Statement

General

The dividend reinvestment scheme was introduced earlier this year and the directors were authorised at the Extraordinary General Meeting on 27 May 2005 to implement the scheme. This scheme enables shareholders to reinvest their dividend entitlement to take advantage of the tax relief available to investors in VCTs, currently at a rate of 40%. I can report that, of the dividend distribution approved in respect of the year to 31 December 2004, a total of 77,311 shares were subscribed at a price of 76.8 pence per share.

A total of 8,000 Ordinary shares of 10p each were allotted on 23 May 2005 at a subscription price of £1 per share following the exercise of warrants. This was the last date by which warrants could be exercised and any outstanding warrant rights have now lapsed.

A total of 200,000 shares were purchased by the Company in the market, for cancellation during the six month period at an average cost of 78.8 pence per share.

Outlook

The businesses within the current portfolio continue to perform, on the whole, satisfactorily. The first half result has been

disproportionately affected by the failure of ExpressOn Biosystems and the write down on Broadreach Networks. However, the successful flotation of Oxonica shows that there is still market appetite for growing, innovative businesses and the development of a number of companies in the portfolio continues to support the Board's optimism for value growth in the medium term.



Sir Andrew Hugh Smith
18 August 2005

Investment Portfolio

Name of Company	Date of initial Investment	Location	Industry Sector	Investment at Cost £000	Investment at Valuation £000
Current Investments					
Vibration Technology Ltd	Mar 2002	Glasgow	Industrial Automation	520	595
Cozart plc	Jul 2004	Abingdon	Healthcare	353	447
Allergy Therapeutics plc	Oct 2004	Worthing	Healthcare	350	408
Purely Proteins Ltd	Nov 2003	Cambridge	Software	400	400
Infinite Data Storage Ltd	Mar 2002	Dunfermline	Software	375	345
Digital Healthcare Ltd	Jun 2005	Cambridge	Healthcare	300	300
Oxonica Ltd	May 2002	Oxford	Chemical	241	266
Silistix Ltd	Dec 2003	Manchester	Software	241	241
Immunobiology Ltd	Jun 2003	Cambridge	Healthcare	200	200
ART Technology Group Inc	Apr 2003	Washington, USA	Software	275	156
DxS Limited	Apr 2004	Manchester	Healthcare	131	131
Broadreach Networks Ltd	Feb 2003	London	Telecoms	550	115
Cambridge Cognition Ltd	May 2002	Cambridge	Software	240	60
Tamesis Ltd	Jul 2001	London	Software	150	-
Arakis Ltd	Mar 2004	Essex	Healthcare	14	-
				4,340	3,664
Realised Investments					
Amino Technologies plc	Sep 2001	Cambridge	Electronics	415	1,875
Cozart plc	Jul 2004	Abingdon	Healthcare	47	72
Sirus Pharmaceuticals Ltd	Sep 2001	Cambridge	Healthcare	270	14
ExpressOn Biosystems Ltd	Oct 2002	Midlothian	Healthcare	450	-
				1,182	1,961
Total investments				5,522	5,625

Investment Portfolio

Vibration Technology Limited



Vibration Technology (Vibtech) is the 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. Since the beginning of the year, Vibtech has raised additional money to fund the manufacture of additional systems and has carried out numerous trials with prospective customers. The initial systems delivered in 2004 are in use, and performing well.

Glasgow

www.vibtech.co.uk

Cozart plc



Cozart is a pioneering medical diagnostics company specialising in the development of testing devices for drugs of abuse. The highly portable Cozart RapiScan™ is suitable for on-site testing of motorists for evidence of drug use with ease, speed and accuracy. The company has recently been granted a patent for a delta-9-tetrahydrocannabinol (THC) detection method. THC is the most potent psychoactive component of the marijuana plant. It is the marker of choice for the identification of a subject's intoxication and exposure to cannabis and, as a result, the target molecule used in areas of forensic and criminal justice testing. The patent deals with the complex area of immunochemistry and additional patent applications are expected to be filed to further extend Cozart's intellectual property position.

Abingdon

www.cozart.co.uk

Allergy Therapeutics



Allergy Therapeutics, an AIM-quoted company, specialises in the treatment and prevention of allergies. It has an existing sales base of approximately £19 million per annum, with MHRA (the Medicines and Healthcare Products Regulatory Agency), approved manufacturing capability and established sales and marketing infrastructure in several major European markets. Throughout the year the company has reported good progress with its development strategy, in particular addressing pollen allergies in Canada and the US.

Worthing

www.allergytherapeutics.com

Investment Portfolio

PP Purely Proteins

Purely Proteins Limited

Purely Proteins develop affinity ligands for the extraction of proteins from complex media and has very strong links with the Institute of Biology in Cambridge through its Director, Chris Lowe. It has signed a contract with a Japanese Pharmaceutical company to develop technology for the extraction of therapeutic protein targets.

Cambridge

www.purelyproteins.com



Infinite Data Storage Limited

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 people's lives. During the year, the company has raised further funding, has secured commercial agreements for its technologies and has now licensed and commenced production of products for Sony, IBM and Belkin.

Dunfermline

www.infinitedatastorage.com



Digital Healthcare Limited

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric sectors of the healthcare market. More specifically, the software controls the acquisition, review, analysis and communication of images and their related clinical information; in essence managing the patient care pathway. The company has recently closed a new funding round of £3 million from a range of new and existing investments, with your Company contributing £300,000, to fund its US expansion and allow an increase in staff to speed up implementation of the contracts, which it is winning both in the UK and the US.

Cambridge

www.digital-healthcare.co.uk

Investment Portfolio

Oxonica Limited



Oxonica operates in the new area of nanotechnology, which involves creating atomic scale products or particles. It currently has 15 filed patents and is continuing field trials for products in areas such as free catalysis, medical diagnostics, healthcare and personal care (e.g. cosmetics). On the back of the good news of commercial contracts for its fuel additives and the sunscreen applications, the company was able to achieve a successful introduction to AIM in July 2005, raising £7.5 million at a valuation of £34 million.

Oxford

www.oxonica.com

Silistix Limited



Silistix is a start-up spin-out from the University of Manchester, which is looking to develop a novel integrated circuit software toolset. After the initial investment in December 2003, further funding was received in October 2004. The company is continuing to make satisfactory progress.

Manchester

Immunobiology Limited



Immunobiology is developing high efficacy vaccines using heat shock protein complexes. This allows vaccines to be manufactured in large quantities by standard fermentation techniques, allowing rapid new deployment of new vaccines. The company has recently licensed its prophylactic tuberculosis vaccine for the developing world and will receive stage payments as it progresses through clinical trials. Its influenza programme has had encouraging initial results and is progressing.

Cambridge

www.immunobiology.co.uk

Investment Portfolio



Art Technology Group Inc

Art Technology Group Inc. (ARTG) delivers software solutions to help consumer-facing organisations create an interactive experience for their customers and partners via the Internet and other channels. The sector that ARTG operates in is generally seen as being one of the potential growth areas in software as online consumer sales continue to grow at a significant rate. The company has had some significant contract wins and is looking for cross selling opportunities that should arise from the combined customer base.

Washington, USA

www.atg.com



DxS Limited

DxS owns the intellectual property for Scorpions™, a technology for identifying variations in an individual's DNA. During the year, satisfactory commercial progress was made in increasing the licence base for the technology. The market continues to develop as the large pharmaceutical companies and the associated regulatory bodies investigate and evaluate the requirement and application for such technology in the prescribing of the current and future generations of drugs.

Manchester

www.dxsgenotyping.com

BroadreachNetworks

Broadreach Networks Limited

Broadreach is a public access broadband provider, with both fixed access and wireless hot spots within its 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 core business continues to develop new Wi-Fi locations and build its customer base. Following good technical progress, the on-train subsidiary, in which your Company also holds a beneficial interest, is seeking additional funding to accelerate roll out trials with leading UK train operators.

London

www.broadreachnet.com

Investment Portfolio

Cambridge Cognition Limited



Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of the progress of mental conditions, especially Alzheimer's, Schizophrenia and Attention Deficit Hyperactivity Disorder (ADHD). It supplies licenses and software to pharmaceutical, academic and medical customers across the globe. After the sale of its manufacturing activities, the company is now solely focused on software development and sales.

Cambridge

www.camcog.com

Tamesis Limited



Tamesis is a developer of real-time trading software for investment banks. This provides its clients with a capability that can change the way they view their own risk position and, therefore, significantly enhance the way they handle their investment business. Despite initial optimism, the IT spend by banks in this very specialised area was limited during 2004 and this trend continued into the first half of 2005. Since the period end, Tamesis was acquired by Patsystems plc, an AIM quoted company whose business is the global supply of electronic trading technology. Consideration was by way of a small initial cash payment, with further consideration in the form of shares in Patsystems based on profit performance over the next two years.

London

www.tamesis.co.uk

Arakis Limited



Arakis is a speciality pharmaceutical company, with a focus on inflammatory diseases and oncology adjunctive therapy. Arakis identifies, develops and commercialises product opportunities based upon new clinical uses for known drugs or known drug templates. It currently has four clinical, and one pre-clinical, advanced development projects. Late last year, Arakis raised a third round funding of £29 million. This year, it has signed a global development and commercialisation agreement with Novartis for their collaborative product AD 237, a novel once daily, long acting antimuscarinic agent for the treatment of chronic obstructive pulmonary disease, and announced that its treatment for rheumatoid arthritis AD 452, has successfully completed a Phase IIa trial.

Essex

www.arakis.com

Profit and Loss Account

For the 6 months ended 30 June 2005

	Unaudited 6 months ended 30 June 2005 £000	Restated Unaudited 6 months ended 30 June 2004 £000	Restated Year ended 31 December 2004 £000
Income	37	35	77
Administrative expenses:			
Investment advisory fee	(88)	(138)	(197)
Other expenses	(95)	(85)	(178)
	(183)	(223)	(375)
Gain on realisation of investments	7	159	1,398
Impairment of investments	(513)	60	(20)
(Loss) profit on ordinary activities before taxation	(652)	31	1,080
Tax on (loss) profit on ordinary activities	2	-	-
(Loss) profit for the financial period	(652)	31	1,080
Dividends	(392)	-	-
Retained (deficit) profit for the period	(1,044)	31	1,080
Basic and diluted (loss) earnings per Ordinary share	3	(8.41)p	0.40p
			13.79p

Statement of Total Recognised Gains and Losses

For the 6 months ended 30 June 2005

	Unaudited 6 months ended 30 June 2005 £000	Restated Unaudited 6 months ended 30 June 2004 £000	Restated Year ended 31 December 2004 £000
(Loss) profit for the financial period	(652)	31	1,080
Unrealised gain on valuation of investments	-	429	(100)
Realisation of Warrant reserve on lapse of unexercised Warrants	2	-	-
Total recognised (losses) gains for the period	(650)	460	980

Note of Historical Cost Profits and Losses

For the 6 months ended 30 June 2005

	Unaudited 6 months ended 30 June 2005 £000	Restated Unaudited 6 months ended 30 June 2004 £000	Restated Year ended 31 December 2004 £000
(Loss) profit on ordinary activities before taxation	(652)	31	1,080
Realisation of investment gains of previous periods	12	7	31
Historical cost (loss) profit on ordinary activities before taxation	(640)	38	1,111
Historical cost (loss) profit on ordinary activities after taxation and dividends	(1,032)	38	1,111

Notes

All activity has arisen from continuing operations.

Balance Sheet

As at 30 June 2005

	Unaudited 30 June 2005 £000	Restated Unaudited 30 June 2004 £000	Restated 31 December 2004 £000
Notes			
Fixed assets			
Investment portfolio	3,664	3,639	3,775
Current assets			
Debtors	215	134	112
Investments	1,541	1,037	1,280
Cash	1,158	2,386	2,544
	2,914	3,557	3,936
Creditors: amounts payable within one year	(108)	(109)	(105)
Net current assets	2,806	3,448	3,831
Total net assets	6,470	7,087	7,606
Capital and reserves			
Called-up share capital	772	782	783
Share premium account	60	10	9
Capital redemption reserve	21	1	1
Revaluation reserve	-	776	223
Warrent reserve	-	2	3
Special reserve	5,213	6,595	5,364
Other reserve	2	1	2
Revenue reserve	402	(1,080)	1,221
Equity Shareholders' funds	6,470	7,087	7,606
Net asset value per Ordinary share	83.8p	90.5p	97.1p

Signed on behalf of the Board

Sir Andrew Hugh Smith
Chairman
18 August 2005

Summarised Cash Flow Statement

For the 6 months ended 30 June 2005

	Unaudited 30 June 2005 £000	Unaudited 30 June 2005 £000	Audited 31 December 2004 £000
Net cash outflow from operating activities	(188)	(215)	(307)
Financial investment	(466)	(452)	20
Equity dividends paid	(332)	-	-
Net cash outflow before management of liquid resources and financing	(986)	(667)	(287)
Management of liquid resources	(250)	(12)	(236)
Net cash (outflow) before financing	(1,236)	(679)	(523)
Financing	150	8	10
Decrease in cash	(1,386)	(671)	(513)

Notes to the Financial Statements

1. The Company has adopted a number of new Financial Reporting Standards in these interim results. The Company has taken advantage of the exemption available to it under paragraph 108D of FRS 26 'Financial Instruments: Measurement' not to restate the prior year comparative figures on adoption of FRS 26. FRS 26 requires the Company to recognise and measure its investments at fair value. The Company has measured its investments at fair value applying the International Private Equity and Venture Capital Valuation Guidelines with effect from 1 January 2005 to the extent that those requirements do not conflict with FRS 26, the main difference being in respect of the non-application of marketability discounts. Where a conflict exists, the requirements of FRS 26 are followed. The new valuation guidelines superseded the British Venture Capital Association Valuation Guidelines, which have historically been applied by the Company.

FRS 21 'Events after the Balance Sheet Date' has been adopted in these interim results. The main change is that dividends, are only recorded where an obligation exists at the period end date. Consequently, dividends which the Company proposes after the balance sheet date are no longer accrued but are required to be disclosed in the notes to the financial statements. The prior year comparative figures have been restated to reflect adoption of FRS 21. The prior year adjustment solely relates to the adoption of FRS 21.

The adoption of both FRS 22 'Earnings per share' and FRS 23 'The Effects of Changes in Foreign Exchange Rates' has resulted in no changes in the accounting policies of the Company. Consequently, the prior year comparative figures have not been revised.

The requirements of the disclosure standard FRS 25 'Financial Instruments: Disclosure and Presentation' whilst being applicable for the year ending 31 December 2005, do not impact the interim results. The requirements of FRS 25 will be reflected in the Company's annual report and accounts expected to be published in March 2006.

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 2004 do not constitute full financial statements and, with the exception of the effects of the prior year adjustment arising on adoption

Notes to the Financial Statements

of FRS 21 referred to above, have been extracted from the Company's financial statements for the year ended 31 December 2004. Those accounts were reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

On 12 November 2004, the Company revoked its investment company status and, consequently, now prepares its financial statements in compliance with Schedule 4 of the Companies Act 1985. The unaudited interim results to 30 June 2004, which were originally prepared in accordance with the provisions of the Statement of Recommended Practice, Financial Statements of Investment Trust Companies, have been restated for comparative purposes.

2. The taxation charge comprises:

	Unaudited 6 months ended 30 June 2005 £000	Restated Unaudited 6 months ended 30 June 2004 £000	Audited Year ended 31 December 2004 £000
(Loss) profit on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 19% (2004 19%)	(124)	6	205
Effect of:			
Non taxable losses (profits) on investments (i)	96	(42)	(262)
Excess management expenses (ii)	28	36	57
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

Notes to the Financial Statements

- 3.** The basic (loss) earnings per share is based on the net loss from ordinary activities after tax attributable to shareholders of £652,000 (30 June 2004: net profit £31,000 and 31 December 2004: net profit £1,080,000) and on 7,757,000 shares (30 June 2004: 7,826,000 and 31 December 2004: 7,830,000), 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 net asset value per Ordinary share is calculated on attributable assets of £6,470,000 and 7,718,777 shares in issue at the period end (30 June 2004: assets of £7,087,000 and 7,833,466 shares, 31 December 2004: assets of £7,606,000 (as restated) and 7,833,466 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.

Directors and Advisers

- **Directors**

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Philip Simon Cammerman
Richard Last
Robert Martin Pettigrew
Stephen John Noar

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