

Interim Report
for the period from
1 January 2006
to 30 June 2006



BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT **2** plc

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Chairman's Statement

The first six months to 30 June 2006 has seen a steady performance from your Company's investments. Realised gains together with net positive valuation movements on the balance of the portfolio were sufficient to offset the net operating costs and contributed to a small increase in net asset value per share to 74.8 pence during the period under review.

This is the first period of trading as the new enlarged Company following the acquisition of British Smaller Technology Companies VCT plc. I am pleased to report that the operating costs of the combined Company during the period were 22% lower than the sum of the expenditure of the two individual companies in the same period last year. Your Board continues to look for cost savings to improve the Company's financial performance.

Operations

The significant event in the period was the flotation of Optos plc in February 2006 which I mentioned in the last Annual Report. The company floated at a price of 250 pence per share and, after an initial fall, the share price rose to 284 pence per share by the end of March 2006. Since that time there has been a gradual fall to the current position where the share price is around 200 pence per share. Your Board took the opportunity to lock in some

profits and disposed of a small number of shares at prices between 240.5 and 265.5 pence per share. Optos reported good progress in its initial interim results to 31 March 2006 and has recently won the UK's most prestigious engineering innovation accolade — The Royal Academy of Engineering 2006 MacRobert Award.

In addition to the sale of a small holding of Optos shares, your Board took the decision to realise its holding in two quoted investments, Focus Solutions Group plc and Sosei Co. Limited. This produced a small combined loss of £21,000. Both companies were relatively small in value and your Board felt that there was little likelihood of improved performance in either case.

The net asset value after the first quarter of trading in this new financial year was 76.2 pence per share. The fall in the second quarter was due to a general fall in AIM stock values, reflected in all quoted companies in the portfolio, with the exception of Cozart. Of these quoted companies, Optos and Allergy Therapeutics continue to report good news in the form of operating milestones and revenue increases. Oxonica has shown some revenue generation and has completed a small acquisition, but the company remains relatively small and is still far from profitability. The share price of ART Technology has fallen in line with the NASDAQ index but analysts remain positive about growth prospects.

"The investment portfolio has shown improvement over the course of the first six months."

Chairman's Statement

Investor appetite for technology-focused businesses as a whole is still evident with early stage interest in some companies within the portfolio continuing, both for trade sales and possible flotations. Although no formal offers or proposals have yet been made, these initial indications are at valuations in excess of your Company's carrying value.

Financial Results

The result for the six months ended 30 June 2006 was a profit of £19,000 or 0.11 pence per share (30 June 2005: loss of £652,000; (8.41) pence per share). The prior period comparison is for the original single entity whereas the current year includes the enlarged business following the acquisition of British Smaller Technology Companies VCT plc at the end of last year; hence the relative increase in income and administrative expenses.

The result of the net gain to profit and loss account, taken with the effect of the share buy back following the announcement of the 2005 results in April 2006, is a small increase in net asset value of 0.6 pence per share to 74.8 pence per share over the six month period to 30 June 2006. Net asset value at the end of the period was £12.44 million. No interim dividend is being paid as realisations in the period were small in absolute terms.

Cash and cash equivalents at the period end were £2.73 million, representing 22% of net asset value. Your Board considers that this is sufficient to support the current portfolio and allow some limited investments in selective new opportunities. Further realisations should enhance this cash reserve after distributing an appropriate proportion to shareholders as a tax free dividend.

Shareholder Relations

Following the announcement of the 2005 annual results, your Board authorised the buy back of 665,867 shares that were available in the market at a price of 63 pence per share. Following that transaction, your Board became aware that further substantial holdings were about to be offered for buy back. It was clear to the Board that, if accepted, this would prejudice the interests of the other shareholders and would substantially reduce the liquid funds available to support the Company's investment portfolio. The Board therefore announced that it was withdrawing its share buy back policy for an indefinite period.

Following that announcement the share price has fallen to 44 pence per share and the discount to the announced net asset value has widened to 42%. This is obviously not ideal but reflects the long term nature of VCT shares and

Chairman's Statement

the effects of the VCT legislation that only offers the 30% income tax rebate on the subscription to a new issue of shares. Thus, the after market remains largely illiquid which is reflected in the discount of share price to net asset value.

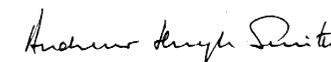
The reason for the decision to end the Company's policy of buying back shares in the market at a fixed discount to net asset value was to concentrate the Company's cash resources and management efforts on supporting the expansion plans of key businesses in the existing portfolio whilst selectively making new investments in business opportunities that have a proven market acceptance and which provide potential for significant growth. Your Board considers that this is still valid and, although it will consider the reinstatement of a similar policy at the appropriate time, that is unlikely to be in the foreseeable future.

Outlook

The economic outlook remains reasonably encouraging although current developments in the Middle East are a cause for serious concern. The investment portfolio has shown improvement over the course of the first six months. There will always be some volatility to the quoted stock valuations but all these

companies are making progress against their business plans and we are optimistic about their prospects relative to the overall stock market sentiments.

There continues to be early stage corporate interest in a number of investments within the portfolio, but it is still too early to say if this would lead to realisations. Nevertheless, it gives grounds for your Board's longer term optimistic view for growth in portfolio value. The overall development of the portfolio at this current time remains satisfactory.



Sir Andrew Hugh Smith
04 August 2006

Investment Portfolio

Name of Company	Date of Initial Investment	Location	Industry Sector	Investment at Valuation £000	Investment at Cost** £000
Current Investments					
Digital Healthcare Ltd	Jun 2005	Cambridge	Healthcare	1,913	1,912
Cozart plc	Jul 2004	Abingdon	Healthcare	1,418	1,519
Vibration Technology Ltd	Mar 2002	Glasgow	Industrial	1,136	1,061
			Automation		
Primal Pictures Ltd	Dec 2005	London	Healthcare	1,084	961
Sarian Systems Ltd	Dec 2005	Ilkley	Telecoms	928	928
Immunobiology Ltd	Jun 2003	Cambridge	Healthcare	600	600
Comvurgent Ltd	Dec 2005	Nottingham	Software	496	266
Allergy Therapeutics plc	Oct 2004	Worthing	Healthcare	470	350
The ART Technology Group Inc	Apr 2003	Washington, USA	Software	433	275
Silistix Ltd	Dec 2003	Manchester	Software	251	304
Optos plc	Dec 2005	Dunfermline	Healthcare	234	115
Cambridge Cognition Ltd	May 2002	Cambridge	Software	152	240
DxS Ltd	Apr 2004	Manchester	Healthcare	131	131
Oxonica plc	May 2002	Oxford	Chemical	102	62
Infinite Data Storage Ltd	Mar 2002	Dunfermline	Software	100	425
Tekton Group Ltd	Dec 2005	Manchester	Software	100	100
Tissuemed Ltd	Dec 2005	Leeds	Healthcare	25	25
Purely Proteins Ltd	Nov 2003	Cambridge	Software	10	438
Oxis Energy Ltd	Dec 2005	Abingdon	Electronics	5	5
Casmir Ltd	Dec 2005	Salford	Software	-	-
Patterning Technologies Ltd	Dec 2005	Hemel Hempstead	Electronics	-	-
Solcom Ltd	Dec 2005	Ryde	Software	-	-
				9,588	9,717
Realised Investments					
Amino Technologies plc	Sep 2001	Cambridge	Electronics	1,875	415
Oxonica plc	May 2002	Oxford	Chemical	255	179
Arakis Ltd	Mar 2004	Essex	Healthcare	108	14
Sosei Co. Ltd	Aug 2005	Toyko, Japan	Healthcare	94	158
Optos plc	Dec 2005	Dunfermline	Healthcare	93	38
Cozart plc	Jul 2004	Abingdon	Healthcare	72	47
Sirus Pharmaceuticals Ltd	Sep 2001	Cambridge	Healthcare	14	270
Broadreach Networks Ltd*	Feb 2003	London	Telecoms	11	550
Focus Solutions Group plc	Dec 2005	Leamington Spa	Software	7	7
ExpressOn Biosystems Ltd*	Oct 2002	Midlothian	Healthcare	-	450
Tamesis Ltd	Jul 2001	London	Software	-	150
Elam-T Ltd*	Dec 2005	London	Electronics	-	-
LANergy Ltd*	Dec 2005	Newport	Telecoms	-	-
Sigtronics Ltd*	Dec 2005	Livingston	Electronics	-	-
Weston Antennas Ltd*	Dec 2005	Dorchester	Telecoms	-	-
				2,529	2,278
Total realised and unrealised to date				12,117	11,995

* In Receivership

** Original or acquired cost

Investment Portfolio

Allergy Therapeutics plc



Allergy Therapeutics, an AIM-quoted company, specialises in the treatment and prevention of allergies. It has an existing sales base of approximately £23 million per annum, with regulator approved manufacturing capability and established sales and marketing infrastructure in several European markets. The company has reported good progress with its development strategy, in particular establishing key relationships to exploit pollen allergy treatments in Canada.

Worthing

www.allergytherapeutics.com

The Art Technology Group Inc



Quoted on NASDAQ, The Art Technology Group delivers software solutions to help consumer-facing organisations create an interactive experience for their customers and partners via the Internet and other channels – generally seen as a strong growth area. The company has had some significant contract wins and is looking for cross selling opportunities that should arise from the combined customer base. The share price has advanced during the year in response to the company's commercial progress.

Washington, USA

www.atg.com

Cambridge Cognition Limited



Cambridge Cognition designs computerised psychological tests for assessing the progress of a wide variety of mental conditions, especially Alzheimer's, schizophrenia and Attention Deficit Hyperactivity Disorder (ADHD). It supplies licenses and software to pharmaceutical, academic and medical customers throughout the world, having already sold its products into over 500 universities in 50 countries. The language independent touch-screen technology runs on most modern IT platforms, delivering high accuracy results of even very subtle changes of cognitive behaviour.

Cambridge

www.camcog.com

Investment Portfolio



Casmir Limited

Casmir is a developer of knowledge management software. After achieving an initial sale into the car manufacturing sector, the market for corporate knowledge management products became difficult and competitive, causing the company to halt its commercial plans. Various opportunities are being considered with a view to exploiting the technology.

Salford



Comvurgent Limited

Comvurgent has developed a range of Voice Over Internet Protocol (VOIP) products for the telecommunications market, including PBX simulation and training tools running on PCs, and a range of call recording products. The call recording range has attracted particular interest from the call centre market, where this technology is increasingly important. The company's customer base ranges from John Deere, Capital One and Hertz to Dunn and Bradstreet, giving some indication of the wide market application.

Nottingham

www.comvurgent.com



Cozart plc

Cozart is a medical diagnostics company specialising in the development and supply of testing devices for drugs of abuse. The portable Rapiscan™ product is currently used by all UK police forces for testing suspects. Since flotation on AIM in 2004, the company has made a number of acquisitions to expand its geographical distribution.

Abingdon

www.cozart.co.uk



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. The software manages the patient care pathway by controlling the acquisition, review, analysis and communication of images and their related clinical information. Several NHS projects, mainly associated with diabetic screening, are being implemented. In addition the company is expanding its operations in the potentially lucrative US market.

Cambridge

www.digital-healthcare.co.uk

Investment Portfolio

DxS Limited



DxS owns the intellectual property for Scorpions™, a technology for identifying variations in an individual's DNA which has particular relevance in the new science of designing personalised medicines to suit an individual's genetic makeup. During the year, satisfactory progress was made with the sale of further licences of the Scorpions technology and other related technologies.

Manchester

www.dxsgenotyping.com

Immunobiology Limited



New funding of £2.6 million in 2005 allows Immunobiology to continue its development of high efficacy vaccines for infectious diseases based on heat shock protein complexes. In an exciting development this year, the Aeras Foundation signed a licence to use Immunobiology's technology in its research for TB immunisation.

Cambridge

www.immunobiology.co.uk

Infinite Data Storage Limited



Infinite Data Storage is a developer in personal data storage technologies, developing, licensing and supplying its products to leading global peripheral device and consumer produce companies. Recent developments of a new technology addressing an emerging market for "place shifting" are generating considerable interest amongst potential customers. Over the last year it has licensed and sold product to some of the consumer electronics giants, Sony, IBM and Bellair.

Dunfermline

www.infinitedatastorage.com

Optos plc



Optos has developed laser ophthalmoscope technology that greatly assists optometrists by producing wide angle retinal scans. The company has more than 2,000 machines installed in America generating revenues of \$48 million last year, and entered the LSE main market in early 2006.

Dunfermline

www.optos.com

Investment Portfolio



Oxis Energy Limited

Oxis Energy is pioneering a novel Lithium-Sulphide electrochemistry to produce a superior performance low-weight rechargeable battery. Lithium-Sulphide technology could be the route to a new light-weight battery with high capacity and stability over the cycle life. Oxis raised additional funding during 2005, which should allow them to produce prototype batteries.

Abingdon

www.oxisenergy.com



Oxonica plc

Oxonica is one of Europe's leading nanomaterials companies, with products already launched into international markets, and is now quoted on AIM. Its lead products include Envirox, a nanocatalyst improving fuel economy and reducing noxious emissions, and Optisol which is a photostable UV protection system for use in sunscreens and anti-aging products. Oxonica recently announced the acquisition of Nanoplex Technologies Inc in an all share transaction which brings complementary technology and established strategic relationships in the key USA markets.

Oxford

www.oxonica.com



Patterning Technologies Limited

Patterning Technologies uses inkjet printing technology to create patterned images for industrial processes that save manufacturing cost and revolutionise production methods. The company has exploited the recent substantial advance in inkjet technology to design and produce novel and innovative solutions for PCB fabrication. The company has now sold a small number of machines for several different applications, and is reporting a strengthening order book for the second half of 2006.

Hemel Hempstead

www.pattech.com



Primal Pictures Limited

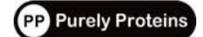
Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. Following the completion of the mapping of the whole anatomy, the company signed three distribution licences with major publishers, which moved the company into profitability.

London

www.primalpictures.com

Investment Portfolio

Purely Proteins Limited



Purely Proteins develops technology for the manufacture and isolation of complex proteins of interest to the pharmaceutical industry for drug discovery programmes or use as therapeutic agents. The company is taking steps to realise the value of its intellectual property portfolio.

Cambridge

www.purelyproteins.com

Sarian Systems Limited



Sarian Systems design and supply a range of wireless and fixed line data communications products to the EPOS, remote monitoring and telemetry sectors of the IT marketplace. The company remains profitable and is developing solid commercial relationships for the development of its technology both in the UK and abroad.

Ilkley

www.sarian.co.uk

Silistix Limited



Silistix is a spin-out from the University of Manchester. The Silistix self-timed chip interconnect technology promises faster and easier chip design and reduced energy consumption and heat generation. Its cutting edge technology has attracted the attention of major chip designers and manufacturers around the world.

Manchester

www.silistix.com

Solcom Limited



Solcom provides consulting services for real-time data acquisition and decision making applications. During the period, the company has continued to develop additional applications for its core skills in its work with key UK customers in the pharmaceutical industry.

Ryde

www.solcom.com

Investment Portfolio



Tekton Group Limited

Tekton Group is a leading supplier of software to the UK construction industry. The investment was made in December 2005 to fund the initial buy-out of Intuita Limited and the simultaneous acquisition of Evision Limited, a competing business based in Livingstone. Since then, the company has won several important contracts and made a further acquisition of a complementary software business.

Manchester

www.tekton-group.com



Tissuemed Limited

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. The company is making encouraging progress with its development of a range of surgical wound dressing products. Early clinical results suggest that the company will be able to enter into commercial distribution contracts in the coming year.

Leeds

www.tissuemed.com



Vibration Technology Limited

Vibration Technology 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. The company is now demonstrating its second generation system to several of the oil exploration majors in field trials in USA, Russia and Far East.

Glasgow

www.vibtech.co.uk

Income Statement

For the 6 months ended 30 June 2006

	Unaudited 6 months ended 30 June 2006 £000	Unaudited 6 months ended 30 June 2005 £000	Audited year ended 31 December 2005 £000
Income	149	37	82
Administrative expenses:			
Investment advisory fee	(190)	(88)	(172)
Other expenses	(147)	(95)	(186)
	(337)	(183)	(358)
Excess of acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost	–	–	975
Gains on realisation of investments (net)	28	7	251
Unrealised gains (losses) on investments held at fair value (net)	179	(513)	(1,371)
Profit (loss) on ordinary activities before taxation	19	(652)	(421)
Taxation	2	–	–
Profit (loss) for the period from continuing operations	19	(652)	(421)
Basic and diluted earnings (loss) per Ordinary share	3	0.11p	(8.41)p
		(5.14)p	

Balance Sheet

As at 30 June 2006

	Unaudited 30 June 2006 £000	Unaudited 30 June 2005 £000	Audited 31 December 2005 £000
Notes			
Assets			
Non-current assets			
Investments at fair value through profit or loss	9,588	3,664	9,503
Current assets			
Trade and other receivables	193	215	150
Cash and cash equivalents	2,733	2,699	3,834
	2,926	2,914	3,984
Liabilities			
Current liabilities			
Trade and other payables	(74)	(108)	(647)
Net current assets	2,852	2,806	3,337
Net assets	12,440	6,470	12,840
Shareholders' equity			
Share capital	1,664	772	1,731
Share premium	69	60	69
Capital redemption reserve	88	21	21
Merger reserve	5,525	–	5,525
Special reserve	–	5,213	–
Other reserve	2	2	2
Retained earnings	5,092	402	5,492
Total Shareholders' equity	12,440	6,470	12,840
Net asset value per Ordinary share	4	74.8p	83.8p
			74.2p

Signed on behalf of the Board



Sir Andrew Hugh Smith
Chairman
04 August 2006

Unaudited Statement of Changes in Shareholders' Equity

For the 6 months ended 30 June 2006

	Share capital £000	Share premium account £000	Merger reserve £000	Other reserves* £000	Retained earnings £000	Total equity £000
Balance at 31 December 2005	1,731	69	5,525	23	5,492	12,840
Profit for the period	–	–	–	–	19	19
Purchase of own shares	(67)	–	–	67	(419)	(419)
Balance at 30 June 2006	1,664	69	5,525	90	5,092	12,440

*Other reserves include the capital redemption reserve and other reserve.

Summarised Cash Flow Statement

For the 6 months ended 30 June 2006

	Unaudited 6 months ended 30 June 2006 £000	Unaudited 6 months ended 30 June 2005 £000	Audited year ended 31 December 2005 £000
Net cash outflow from operating activities	(286)	(188)	(290)
Net cash from (used in) investing activities	27	(466)	81
Net cash used in financing	(765)	(482)	(519)
Net (decrease) increase in cash and cash equivalents	(1,024)	(1,136)	2
Cash and cash equivalents at the beginning of the period	3,834	3,824	3,824
Effect of market value changes in cash equivalents	(77)	11	8
Cash and cash equivalents at the end of the period	2,733	2,699	3,834

Notes to the Financial Statements

For the 6 months ended 30 June 2006

1. 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 2005 do not constitute full financial statements and have been extracted from the Company's financial statements for the year ended 31 December 2005. Those accounts were reported upon without qualification by the auditors and have been delivered to the Registrar of Companies.

The financial statements for the year ended 31 December 2005 were prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Accounting Standards Committee (IASC) as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The comparatives for the six months ended 30 June 2005 were previously presented in accordance with UK accounting standards. Following the transaction with British Smaller Technology Companies VCT plc in December 2005, the Board decided to adopt IFRS for the financial statements for the year ended 31 December 2005. The effective date of transition to IFRS was therefore 1 January 2004. Consequently, the comparatives for the six months ended 30 June 2005 have been restated in accordance with IFRS. The impact of the adoption of IFRS was explained in the financial statements for the year ended 31 December 2005 which have been filed with the Registrar of Companies and sent to shareholders in June 2006.

Notes to the Financial Statements

2. Taxation charge

	Unaudited 6 months ended 30 June 2006 £000	Unaudited 6 months ended 30 June 2005 £000	Audited Year ended 31 December 2005 £000
Profit (loss) on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 19% (2005:19%)	4	(124)	(80)
Effect of:			
Non taxable (profits) losses on investments	(39)	96	213
Excess management expenses	35	28	(133)
Current tax charge for period	-	-	-

The Company has no provided, or unprovided, deferred tax liability in either year.

Deferred tax assets in respect of losses have not been recognised as management currently believe that there will not be sufficient taxable profits against which the assets can be recovered.

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

Notes to the Financial Statements

3. The earnings (loss) per Ordinary share is based on the net profit from ordinary activities after tax of £19,000 (30 June 2005: net loss of £652,000 and 31 December 2005: net loss of £421,000) and on 17,120,000 (30 June 2005: 7,757,000 and 31 December 2005: 8,185,000) shares, 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 earnings (loss) per share are the same.

4. The net asset value per Ordinary share is calculated on attributable assets of £12,440,000 (30 June 2005: £6,470,000 and 31 December 2005: £12,840,000) and 16,641,257 (30 June 2005: 7,718,777 and 31 December 2005: 17,307,124) shares in issue at the period end.
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

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

• Investment Adviser and Custodian

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