

**British Smaller Technology Companies VCT 2 plc**  
**Annual Report**

**for the period from 4 October 2000 to 31 December 2001**

**Registered Number: 4084003**



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## FINANCIAL SUMMARY

	Period ended 31 December 2001
Income	£288,000
Net revenue return before tax	£35,000
Net revenue return after tax	£28,000
Revenue return per share	0.49p
Total return per share	(0.48p)
Dividend per share	-
Net assets	£6,441,000
Net asset value per share	93.7p
Number of qualifying investments	3
Value of qualifying investments	£300,000

## CHAIRMAN'S STATEMENT

I am pleased to present the first Annual Report and Accounts to the shareholders of British Smaller Technology Companies VCT 2 plc for the period from 4 October 2000 to 31 December 2001. The first allotment of shares under the initial subscription was made on 29 December 2000 with admittance to a full listing on the London Stock Exchange taking place on 12 April 2001.

The reporting period suffered from an exceptionally unfavourable environment. Led by the United States, activity in the world economy was in a period of decline. The full effects of the decline in valuations of the IT and Telecom sectors were felt and business confidence and investment spending fell very sharply. This was accentuated by the events of 11 September. The difficult economic environment was inevitably reflected in financial markets, most sharply in the case of small and emerging companies. In the UK, the FTSE AIM index fell 38% and the FTSE Techmark100 index 43% during 2001.

This situation reflected the market's return to more realistic valuations of emerging and, particularly, technology-based companies even more so than the concerns at the effects of an economic slow down. The longer-term prospects of the technology sector remain intact although the decline in confidence and activity has presented many companies with short-term difficulties. A beneficial effect has been that we are now able to negotiate with potential investee companies at much more attractive valuations.

### Investments

In my interim report I outlined the two investments that had been made at that date, £125,000 in Amino Holdings Limited and £150,000 in Tamesis Limited. Both investments were made as part of a larger funding package and alongside monies from other funds under the management of your Board's Investment Adviser, Yorkshire Fund Managers Limited.

Since that date one further investment has completed bringing total investments made to £375,000. On 7 September, £100,000 was invested in Syngenix Limited by way of £90,000 convertible unsecured loan stock and £10,000 in Ordinary shares representing 1.66% of the issued Ordinary share capital. This investment was made alongside a further £100,000 from British Smaller Technology Companies VCT plc and was part of a £5.5m start-up funding package. Syngenix's business is the delivery of drugs and probes to the nervous system.

The investment portfolio is still at a very early stage in its development. However, the events of 11 September had a material effect on the business of Tamesis Limited, a company that designs, develops and sells financial software to the risk management divisions of global investment banks. As a result your Board has decided to make a 50% provision against the cost of this investment.

Further details on the investments can be found in the Investment Adviser's Review.

### Financial Results and Dividend

The net revenue return after tax for the period was £28,000 on total revenue of £288,000. All income was derived from surplus liquid funds awaiting investment. The total return was a loss of £27,000 following the write down of the investment in Tamesis.

No dividend is proposed in line with the stated aim of the Company. The Company's investment policy is geared toward medium and longer term capital gains rather than short term revenue returns. Thus, as the Company moves toward full investment, it is expected that revenue returns will fall as the level of liquid funds reduces. It is anticipated that dividend returns to shareholders will only be made once capital gains begin to materialise.

The net asset value at 31 December 2001 was 93.7p per Ordinary share.

## CHAIRMAN'S STATEMENT

### Fund Raising

As stated in my interim report, the conditions for raising funds in the current market were, and remain, difficult. The fund raising closed on 31 May 2001 with a total of £6.7m committed by shareholders. Following further issues of shares under the directors' authority to allot, total funds raised from shareholders was £6.8m from this initial offer. A new prospectus to raise additional shareholder funds was issued on 23 November 2001 and this is ongoing. To date just over £0.5m has been raised under this new issue.

### Outlook

Yorkshire Fund Managers Limited continues to report a strong flow of enquiries from companies that meet the criteria for funding laid out in the prospectus.

The continued weak market sentiment toward technology-based companies is providing your Company with opportunities to invest in businesses with real innovative advantage at attractive valuations, thus increasing the potential for future capital gains.



Sir Andrew Hugh Smith  
Chairman  
25 March 2002

## INVESTMENT ADVISER'S REVIEW

### Investment Portfolio

This section describes the business of the companies in the portfolio together with a short review of progress made since investment. The website address of the investee is included to enable shareholders to get more details of these companies.

Company	Head Office	Cost	Valuation
<b>Amino Holdings Limited</b>	<b>Cambridge</b>	<b>£125,000</b>	<b>£125,000</b>

Date of investment: September 2001

Amino is a developer and licensor of technologies for the secure and rapid deployment of networked multimedia solutions. Amino combines modular components allowing manufacturers to start production with conventional, low risk circuit board level solutions in a fraction of the traditional time. Licensees can then migrate to System-on-Chip when they need high volume production. Amino's IP solutions include its Advanced Set-top Box Reference Design and Residential Gateway Reference Design, both of which are contributing to the steady increase in revenues.

Audited consolidated accounts for Amino Holdings Limited and its subsidiary are not produced.

For the year ended 31 December 2000 audited pre-tax losses of the company's trading subsidiary were £1.99m on turnover of £0.9m (1999: £0.56m loss and £0.13m respectively). At 31 December 2000 the aggregate net assets of Amino Holdings Limited and its 100 percent subsidiary Amino Communications Limited were £2.69m.

Equity held: 0.83%

Valuation basis: Cost

More information on Amino can be found at [www.aminocom.co.uk](http://www.aminocom.co.uk)

<b>Syngenix Limited</b>	<b>Cambridge</b>	<b>£100,000</b>	<b>£100,000</b>
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Date of investment: September 2001

Syngenix has patented technology allowing the delivery of drugs via axonal transport. This means that modified drugs can be absorbed into nerve cells and transported to the nucleus along the nerve cell body. This allows delivery of drugs to highly targeted areas of the body and across the blood-brain barrier.

For the year ended 31 August 2001 audited pre-tax losses were £0.86m on turnover of £0.02m (2000: £0.45m and £0.02m respectively).

At 31 August 2001 net assets were £0.86m.

Equity held: 1.66%.

Valuation basis: Cost.

Since investment, Syngenix has made considerable progress in understanding the fundamental process of axonal transport and in further developing their technology. The commercial team is beginning the process of finding partners to exploit the technology alongside their own product development.

More information on Syngenix can be found at [www.syngenix.com](http://www.syngenix.com)

## INVESTMENT ADVISER'S REVIEW

### Investment Portfolio

Company	Head Office	Cost	Valuation
Tamesis Limited	London	£150,000	£75,000

Date of investment: July 2001

Tamesis develop and sell real time trading software for investment banks. The software allows consolidation of risk data from legacy silos to produce a consolidated risk position. 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.

For the year ended 31 December 2000 audited pre-tax losses were £0.1m on turnover of £1.66m (1999: £0.54m loss and £ 1.21m respectively). At 31 December 2000 net assets were £0.66m.

Equity held: 1.56%.

Valuation basis: Cost less 50% provision.

Progress continues to be made with Tamesis' major world-wide banking customers following the events of 11 September.

More information on Tamesis can be found at [www.tamesis.com](http://www.tamesis.com)

### Operations

This first period of trading has seen an aggregate of £375,000 invested in three companies. All three of these investments were made alongside the British Smaller Technology Companies VCT plc, one as a follow on investment and two as new investments to both funds.

We believe that, particularly in the current environment, it is important that emerging companies are well funded and that investors have the capacity to provide further funding where appropriate. To this end, your Investment Adviser and Board intend to continue to undertake investments alongside other investors ensuring, where possible, that your Company has the capacity to follow the initial investment where appropriate.

### Portfolio Overview

Your Board has followed its stated policy by investing in companies that have products that are either patent protectable or have a clear market advantage.

Two of the investments, Amino Holdings Limited and Tamesis Limited, were made in companies that had achieved a level of market adoption and were seeking finance to further exploit their markets. Syngenix Limited was at an earlier stage in its development, where it is moving from proof of concept through to the development of a commercial product.

### Outlook

The market sentiment towards the valuation of technology-based companies looks set to remain weak for some time yet and should provide the opportunity for an enhanced benefit to shareholders over that time through increased capital growth.



Philip S. Cammerman  
Yorkshire Fund Managers Limited  
25 March 2002

## VALUATION OF VENTURE CAPITAL INVESTMENTS

In valuing unlisted investments the directors follow the criteria set out below. These procedures comply with the British Venture Capital Association guidelines for the valuation of venture capital investments.

- Investments completed within 12 months prior to the date of valuation are normally valued at cost except that adjustments are made when there has been a material change in the trading circumstances of the company or a substantial movement in the market.
- Provisions against cost, in bands of 25%, are made at any stage in a company's development if performance shows a material deviation from plan. Provisions are initially applied to the equity element of an investment as this carries the greater risk.
- Whenever practical, investments will be valued by reference to a material arms-length transaction or a quoted price. AIM quoted investments are valued at their mid-market price at the balance sheet date less a discount, where appropriate, to reflect any particular restrictions or significant holdings in relation to the issued share capital.
- Mature companies are valued by applying a multiple to their fully taxed prospective earnings. The multiple is derived by taking an average of the prospective multiples of the most comparable listed companies and adjusting for differences in business mix, size, trading record and prospects. This multiple is discounted by at least 25% for illiquidity. In the event that there are no comparable listed companies, the prospective multiple of the most relevant sub-sector of the Financial Times Actuaries Share Indices is used and a similar discount applied.
- To obtain a valuation of the total Ordinary share capital held by management and the institutional investors, the value of preference share capital is deducted from the valuation of the entire share capital. The effect of any performance related mechanisms is taken into account in determining the split of Ordinary share capital between management and institutions.
- Except when provisions have been applied as outlined above, preference shares are valued at cost. When a redemption premium has accrued this will only be valued if there are reasonable prospects of it being paid.
- Preference shares which carry a right to convert into Ordinary share capital are valued at the higher of the cost basis and the Price/Earnings basis, both described above.
- Debenture and loan stock are valued on the same basis as preference shares.

## DIRECTORS

**Sir Andrew Colin Hugh Smith Chairman** (70), 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 of British Smaller Technology Companies VCT plc.

**John Railton Ashcroft** (50), following an early career in the UK and US pharmaceutical and chemical industries, he founded in 1984, and was, until its sale in 1996, the principal shareholder of, Optimum Group Limited, an energy services group of companies operating materials handling contracts within UK power stations and ports. Formerly the Project Director for the Yorkshire and the Humber Regional Innovation Strategy, he holds a number of non-executive directorships in hi-tech companies. He is a non-executive director of British Smaller Technology Companies VCT plc and is a board member of Yorkshire Forward, the Regional Development Agency for Yorkshire and the Humber.

**Philip Simon Cammerman** (59), 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 managing director 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** (44), qualified as a chartered accountant with Coopers & Lybrand and was, until its recent take over by the Skandia Group, chief executive of Lynx Group plc, a computer software, systems and services group. Subsequently, he led the management buy-out of the IT business of the Lynx Group. He is a non-executive director of British Smaller Companies VCT plc and British Smaller Technology Companies VCT plc and was appointed a non-executive director of Tamesis Limited following our investment in this company.

**Stephen John Noar** (54), a dentist by profession, 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.

**Robert Martin Pettigrew** (57), a founding director of The Generics Group of companies 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, and lasers and laser applications. He is a non-executive director of British Smaller Companies VCT plc and of British Smaller Technology Companies VCT plc, and a non-executive director of Voxar Limited. He is a director of Gentech Investment Management Limited, The Generics Group's vehicle for the commercial exploitation of intellectual property, and a director of Generics Asset Management Limited, the technology adviser to Yorkshire Fund Managers Limited.

### **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 period from 4 October 2000 to 31 December 2001**

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the initial period ended 31 December 2001. The Company was incorporated on 4 October 2000. Dealings in its shares, and the Company's trading activities, commenced on 12 April 2001.

### **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 period is set out on page 15.

The directors consider the result for the period and the financial position at the end of the period to be satisfactory.

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 5.

### **Results and Dividends**

The revenue profit for the period after taxation amounted to £28,000.

The directors do not recommend the payment of a final dividend to Ordinary shareholders.

The net asset value per Ordinary share at 31 December 2001 was 93.7p. The transfer to reserves is given in note 15.

### **Share Capital and Warrants**

On 31 October 2000 the 2 Ordinary shares of 100p each in issue were each subdivided into 10 Ordinary shares of 10p each paid up in full. The 49,998 unissued Ordinary shares of 100p each were also each divided into 10 Ordinary shares of 10p each and the authorised share capital of the Company was increased from £50,000 to £5,000,000 by the creation of 49,000,000 new Ordinary shares of 10p each and 50,000 Redeemable Preference shares of 100p each.

On 18 June 2001 the Redeemable Preference shares, issued on 31 October 2000, were redeemed in full and each was re-designated as 10 Ordinary shares of 10p each.

Between 29 December 2000 and 31 May 2001, under an Offer Document dated 28 November 2000, the Company issued and allotted 6,727,878 Ordinary shares of 10p each with Warrants attached on a 1 for 5 basis at 100p per share.

Between 23 July 2001 and 3 December 2001 a further 148,255 10p Ordinary shares were issued with Warrants attached on a 1 for 5 basis at 100p for cash under the directors' authority to allot shares.

## 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 12).

### Directors and their Interests

The directors of the Company at 31 December 2001 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 2001	Number of Warrants at 31 December 2001
Sir Andrew Hugh Smith	25,000	5,000
J R Ashcroft	8,000	1,600
P S Cammerman	10,000	2,000
R Last	10,000	2,000
S J Noar	10,000	2,000
R M Pettigrew	27,225	5,445

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

Except for the warrant rights attaching to their existing Ordinary shares, none of the directors held any option to acquire additional shares at any time during the period.

Brief biographical notes on the directors are given on page 7. No director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed in note 4, and, save as described under "Administration" below, no contract subsisted during or at the end of the period in which any director was materially interested and which was significant in relation to the Company's business.

The Company has no employees.

### Administration

Yorkshire Fund Managers Limited, of which Mr Cammerman is a director with no beneficial shareholding interest, 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 FSA.

Mr Pettigrew is a director of Generics Asset Management Limited which acts as Technology Adviser to Yorkshire Fund Managers Limited pursuant to an agreement dated 28 November 2000.

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 share 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.

## **DIRECTORS' REPORT**

### **Fixed Assets**

Movements on investments held as fixed assets are shown in note 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 on page 28 of these financial statements.

### **Auditors**

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

### **Post Balance Sheet Events**

There have been no venture capital investments made since the period end.

### **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.

## DIRECTORS' REPORT

### Corporate Governance Statement

The Board is committed to the principle and application of sound Corporate Governance and confirm 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* ("the Combined Code").

The Board has complied throughout the period with Section 1 of the Combined Code 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 six non-executive directors, four of whom are independent of the Company's Investment Adviser and that company's Technology Adviser.

There are no executive officers of the Company and the directors are remunerated as set out in note 4 to the accounts. 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 Annual General Meeting. One third of all directors are subject to re-election each period. Biographical details of the two directors seeking re-election may be found at page 7. 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 full Board meets at least six times per year and additionally as the need arises and has a list of matters specifically reserved for their review.

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

The Board confirms that procedures to implement the guidance, Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Report"), were established prior to listing.

- 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 arranges 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 at least 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 throughout this first operating period.
- 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 are in place 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.

## **DIRECTORS' REPORT**

### **Internal Control**

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 review of the Company's investments, liquid assets and liabilities, and revenue and expenditure.
- regular review 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, J R Ashcroft, R Last and S J Noar. The Committee will meet 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.

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.

### **Going Concern**

After due consideration, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

## DIRECTORS' REPORT

### Relations with Shareholders

This year's AGM will be held on 10 May 2002. The Notice of Meeting is circulated not less than 20 working days before the AGM in compliance with the recommendation contained in the Combined Code.

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.

### 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, debenture loans or convertible unsecured loan stock. Each fixed asset investment is valued in accordance with the British Venture Capital Association guidelines, a summary of which is set out on page 6 of this report. Investments in fixed interest Government securities are valued at current cost which equates to their market value as at the Balance Sheet date. To this end, the directors consider that the carrying value of the portfolio at 31 December 2001 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.

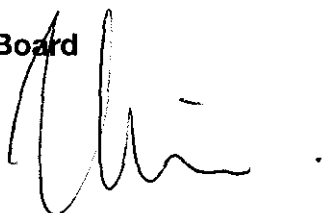
Due to the structure of certain investments, Preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company will have the option of repaying earlier. In some instances the redemption 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 2001 can be found in the Investment Adviser's Review and notes 9 and 10 to these Financial Statements.

**By order of the Board**

J E P Gervasio  
Company Secretary  
25 March 2002



## **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 notes 1 to 22.

### **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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 or the Listing Rules 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 and the directors' report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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. 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 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 at 31 December 2001 and of its total return and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and  
Registered Auditors  
Leeds  
25 March 2002

## STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT)

for the period ended 31 December 2001

	Notes	Revenue £000	Period ended 31 December 2001 Capital £000	Total £000
Net losses on investments	8	-	(13)	(13)
Income	2	288	-	288
Investment advisory fee	3	(114)	(49)	(163)
Other expenses	3	(139)	-	(139)
<b>Net return on ordinary activities before taxation</b>		<b>35</b>	<b>(62)</b>	<b>(27)</b>
Tax on ordinary activities	5	(7)	7	-
<b>Net return on ordinary activities after taxation</b>		<b>28</b>	<b>(55)</b>	<b>(27)</b>
Dividends in respect of equity shares	6	-	-	-
<b>Transfer to (from) reserves</b>		<b>28</b>	<b>(55)</b>	<b>(27)</b>
Return per Ordinary share				
Basic and fully diluted	7	0.49p	(0.97)p	(0.48)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 return on ordinary activities before taxation and the transfer to revenue reserves for the financial period and their historic cost equivalents.

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

## BALANCE SHEET

at 31 December 2001

	Notes	2001 £000
<b>Fixed Assets</b>		
Investment portfolio	8a	<u>300</u>
<b>Current Assets</b>		
Investments	8b	5,631
Debtors	11	109
Cash		437
		<u>6,177</u>
Creditors: amounts payable within one year	12	(36)
<b>Net Current Assets</b>		<u>6,141</u>
<b>Total Net Assets</b>		<u>6,441</u>
<b>Capital and Reserves</b>		
Called-up share capital	14	688
Share premium account	15	5,780
Capital reserve:		
Realised	15	30
Unrealised	15	(85)
		<u>(55)</u>
Revenue reserve	15	28
Equity shareholders' funds	16	<u>6,441</u>
<b>Net asset value per Ordinary share</b>	17	<u>93.7p</u>

Signed on behalf of the Board



Sir Andrew Hugh Smith  
Director  
25 March 2002

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

## CASH FLOW STATEMENT

for the period ended 31 December 2001

	Notes	Period ended 31 December 2001 £000
<b>Net cash outflow from operating activities</b>	18	<u>(87)</u>
<b>Investing activities</b>		
Purchase of investments		<u>(375)</u>
<b>Net cash outflow before management of liquid resources and financing</b>		<u>(462)</u>
<b>Management of liquid resources</b>		
Purchase of fixed interest Government stocks		(17,524)
Proceeds from the sale of fixed interest Government stocks		<u>11,955</u>
<b>Net cash outflow from management of liquid resources</b>		<u>(5,569)</u>
<b>Financing</b>		
Issue of Ordinary shares		6,876
Issue expenses		<u>(408)</u>
<b>Net cash inflow from financing</b>		<u>6,468</u>
<b>Increase in cash in the period</b>	20	<u>437</u>

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

## NOTES TO FINANCIAL STATEMENTS

for the period ended 31 December 2001

### 1. Principal Accounting Policies

The Company has adopted the new financial reporting standard number 18 (FRS 18) in its accounts for the period ended 31 December 2001. Adoption of FRS 18 required a full review of all the Company's accounting policies and estimation techniques (the latter being the methods by which accounting policies be implemented). This review was conducted in accordance with FRS 18, which requires that, where a choice of treatment is available, the "most appropriate accounting policies and estimation techniques shall be used."

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

#### Basis 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 in accordance with applicable United Kingdom accounting standards and in accordance with the provisions of the Statement of Recommended Practice, *Financial Statements of Investment Trust Companies*.

#### 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 which 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.

Tax relief is allocated to the capital reserve using an effective rate basis.

#### 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 period end.

#### Investments

Investments in unquoted companies are treated as fixed assets and stated in the balance sheet at directors' valuation in accordance with the British Venture Capital Association guidelines for the valuation of venture capital investments as set out on page 6. In determining this value, the directors give consideration to the period of investment, the performance of the investment against plan, comparative listed companies' earnings multiples suitably discounted and any recent transactions.

Although the Company may hold more than 20% of the equity of certain companies, the directors consider that, in view of the current investment objectives of the Company, it would not be appropriate to treat these holdings as investments in associated undertakings.

Quoted investments are valued at middle market prices. Quoted venture capital investments in AIM listed 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 and are held at current cost which equates to market value as at the balance sheet date. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal Accounting Policies (continued)

#### Taxation

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

Deferred taxation is provided for using the liability method on all timing differences only to the extent that they are expected to crystallise.

### 2. Gross Income

	Period ended 31 December 2001 £000
Fixed interest government securities	195
Interest on deposits	93
	<hr/> 288

### 3. Administrative Expenses

	Period ended 31 December 2001 £000
Investment advisory fee (including irrecoverable VAT)	163
Administration fee	25
Directors' remuneration (Note 4)	23
Auditors' remuneration:	
-audit fees	7
-other	10
General expenses	74
	<hr/> 302
Allocated to Capital reserve:	
Investment advisory fee	(49)
	<hr/> 253

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 twelve 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 £98,000, including irrecoverable VAT, and an investment management fee of £65,000. The investment administration fee is charged to the revenue account and the investment management fee is allocated as to 25% to revenue account and 75% to realised capital reserve.

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Administrative Expenses (continued)

The total remuneration payable to Yorkshire Fund Managers Limited in the period (excluding VAT) was £164,000.

In addition to the amounts disclosed above, a further £8,000 was paid to the auditors for professional services in connection with the fundraising under the Offer Document dated 28 November 2000. This amount has been deducted from the share premium account.

### 4. Directors' Remuneration

Total directors' remuneration for the period amounted to £23,000 of which £18,000 was paid to 3 individuals for services as directors and £5,000 was paid to third parties in respect of directors' services.

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

	Period ended 31 December 2001 £
Sir Andrew Hugh Smith	8,000
J R Ashcroft	5,000
P S Cammerman	-
R Last	5,000
S J Noar	5,000
R M Pettigrew	-

No other emoluments or pension contributions were paid to or on behalf of any director during the period. There are no directors who are remunerated as executive directors. Mr Cammerman and Mr Pettigrew receive no fees as directors of the Company. All fees paid to the directors during the period have been in accordance with the statements in the Company's Listing Particulars. Other than the warrants attaching to existing Ordinary shares, no director is entitled to shares under any share option or long term incentive schemes.

There are no employees.

### 5. Taxation Charge (Credit)

	Period ended 31 December 2001		
	Revenue £000	Capital £000	Total £000
Corporation tax payable at 20%	7	(7)	-

### 6. Dividends

No dividends have been paid or proposed in the period.

### 7. Revenue Return per Ordinary Share

The basic revenue return per Ordinary share is based on the net revenue return from ordinary activities after tax of £28,000 and 5,682,000 shares being the weighted average number of shares in issue during the period.

The Company has no securities that would have a dilutive effect in the period to 31 December 2001 and hence the basic and fully diluted return per share are the same.

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Investment Portfolio

#### a) Fixed assets

The movement in the period on venture capital investments was as follows:

	2001 £000
Additions at cost	375
Movement on valuation	(75)
Valuation at 31 December 2001	<u>300</u>

#### b) Current assets

The movement in the period on UK Government stocks was as follows:

	2001 £000
Additions at cost	17,524
Disposal proceeds	(11,955)
Realised gain	72
Unrealised loss	(10)
Valuation at 31 December 2001	<u>5,631</u>

UK Government stocks held at 31 December 2001 are classified as current assets due to their use as temporary holdings until venture capital investment opportunities arise.

### 9. Investments

The cost and carrying value of investments held at 31 December 2001, all of which are registered in England and Wales, are detailed as follows:

	Cost £000	2001 Valuation £000	%
<b>Tamesis Limited</b>			
Ordinary shares	<u>150</u>	<u>75</u>	<u>1.2</u>
<b>Amino Holdings Limited</b>			
Ordinary shares	<u>125</u>	<u>125</u>	<u>1.9</u>
<b>Syngenix Limited</b>			
Ordinary shares	10	10	
Convertible unsecured loan stock	<u>90</u>	<u>90</u>	
	<u>100</u>	<u>100</u>	<u>1.6</u>
<b>Total venture capital portfolio</b>	<u>375</u>	<u>300</u>	<u>4.7</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Investments (continued)

	Cost £000	2001 Valuation	
		£000	%
<b>Government Stocks</b>			
13.5% Treasury stock 2004	36	36	0.6
3.5% Treasury stock 2004	2,813	2,806	43.6
6.5% Treasury stock 2003	2,792	2,789	43.3
<b>Total investment in Government stocks</b>	<b>5,641</b>	<b>5,631</b>	<b>87.5</b>
<b>Total financial asset investments</b>	<b>6,016</b>	<b>5,931</b>	<b>92.2</b>
Cash		437	6.8
Other net current assets		66	1.0
<b>Shareholders' funds</b>		<b>6,434</b>	<b>100.0</b>

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, which have also invested in the 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 2001.

	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	-	687	-	687
Syngenix Limited	-	100	-	100

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in Sterling, hence there is no foreign currency exchange rate exposure. The fixed asset investments are valued in accordance with the British Venture Capital Association guidelines and, therefore, the directors consider all assets to be carried at 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 2001, the financial assets and liabilities, by value, excluding (as permitted by FRS 13) short-term trade debtors and trade creditors, and the analysis by interest rate risk, comprised:

	2001	
	£000	%
<b>Qualifying venture capital investments</b>		
Ordinary shares	210	3.3
Nil coupon convertible unsecured loan stock	90	1.4
	<hr/> 300	<hr/> 4.7
Fixed interest Government stocks	5,631	88.4
Cash on floating rate deposit	437	6.9
	<hr/> 6,368	<hr/> 100

There are no fixed rate financial assets in venture capital investments held at 31 December 2001. For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 5.0% with a weighted average period of 2 years, 3 months. Ordinary share investments are excluded from the weighted average interest rate risk analysis as there is no pre-defined maturity date on these instruments.

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 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 borrowing facilities.

## NOTES TO THE FINANCIAL STATEMENTS

### 11. Debtors

	2001 £000
<b>Amounts receivable within one year:</b>	
Prepayments and accrued income	<u>109</u>

### 12. Creditors

	2001 £000
<b>Amounts payable within one year:</b>	
Accrued expenses	<u>36</u>

The average number of creditor payment days during the period was 21.

### 13. Deferred Tax

There are no amounts provided or unprovided in respect of deferred tax.

### 14. Called-up Share Capital

	2001	Allotted, Called-up and Fully paid
	Authorised £000	£000
Ordinary shares of 10p Authorised: 50,000,000 Issued: 6,876,133	<u>5,000</u>	<u>688</u>

The movement in the period was as follows:

	Date	Share Capital £000	Share Premium £000
Allotments	Dec 00	93	833
	Jan 01	108	972
	Feb 01	133	1,197
	Mar 01	182	1,638
	Apr 01	125	1,125
	May 01	33	297
	July 01	2	18
	Aug 01	6	54
	Oct 01	2	18
	Dec 01	4	36
		<u>688</u>	<u>6,188</u>
Expenses of share issue		-	(408)
As at 31 December 2001		<u>688</u>	<u>5,780</u>

All Ordinary shares were issued with Warrants attached on a 1 for 5 basis. Each Warrant entitles the warrant holder 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. Further details are included in the Directors' Report under the heading Share Capital and Warrants.

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Reserves

The movement in the period was as follows:-

	Share Premium £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
Issue of shares	6,188	-	-	-
Expenses of share issue	(408)	-	-	-
Valuation of fixed asset investment portfolio	-	-	(75)	-
Realisation of current asset investments	-	72	-	-
Valuation of current asset investments	-	-	(10)	-
Capital expenses	-	(49)	-	-
Tax effect of capital expenses	-	7	-	-
Retained revenue for the period	-	-	-	28
	<u>5,780</u>	<u>30</u>	<u>(85)</u>	<u>28</u>
As at 31 December 2001				

No proceeds have been allocated to a warrant reserve in relation to the Warrants issued during the period.

### 16. Reconciliation of Movements in Shareholders' Funds

	Period ended 31 December 2001 £000
Net proceeds of share issue	6,468
Total return after tax	(27)
As at 31 December 2001	<u>6,441</u>

### 17. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £6,441,000 and 6,876,133 shares in issue at the period end.

### 18. Reconciliation of Net Revenue Return on Ordinary Activities before Taxation to Net Cash Outflow from Operating Activities

	Period ended 31 December 2001 £000
Net revenue return on ordinary activities before taxation	35
Increase in prepayments and accrued income	(109)
Increase in accruals	36
Investment advisory fees charged to capital reserve	(49)
Net cash outflow from operating activities	<u>(87)</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 19. Reconciliation of Net Cash Flow to Movement in Net Funds

	Period ended 31 December 2001 £000
Increase in cash in the period	437
Cash outflow from increase in liquid resources	5,569
	<hr/>
Changes in net funds resulting from cash flows	6,006
Other non-cash items:	
Profit on disposal of fixed interest quoted investments	72
Movement in value of fixed interest quoted investments	(10)
	<hr/>
<b>Net funds at 31 December 2001</b>	<b>6,068</b>
	<hr/>

### 20. Analysis of Net Funds

	4 October 2000 £000	Cash flow £000	Other non cash changes £000	31 December 2001 £000
Cash	-	437	-	437
Fixed interest quoted investments	-	5,569	62	5,631
	<hr/>	<hr/>	<hr/>	<hr/>
	-	6,006	62	6,068
	<hr/>	<hr/>	<hr/>	<hr/>

### 21. Financial Commitments

Investments totalling £850,000 and not reflected in these accounts had been approved by the Board of Directors at 31 December 2001. Since the period end further investments totalling £450,000 had been approved by the Board, none of which have yet been completed.

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Related Party Transactions

Mr Cammerman is the Managing Director of Yorkshire Fund Managers Limited, the Investment Adviser to the Company. Mr Cammerman has no beneficial shareholding in Yorkshire Fund Managers Limited.

Mr Pettigrew is a director of Generics Asset Management Limited, the technology adviser to Yorkshire Fund Managers Limited.

During the period Yorkshire Fund Managers Limited received remuneration amounting to £164,000 (excluding VAT) in respect of services provided in accordance with the Investment Advisory Agreement dated 28 November 2000. At 31 December 2001 there were no amounts owing to 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 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 as between Yorkshire Fund Managers Limited and Generics Asset Management Limited. No entitlement has vested this period.

Mr Last is a non-executive director of Tamesis Limited. The appointment was made pursuant to an agreement following the investment made in that company. During the period he received remuneration of £5,000 in respect of his services.