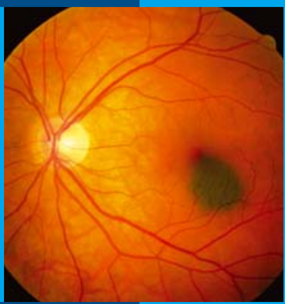
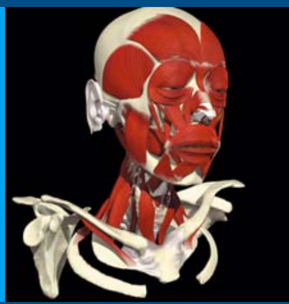
Annual Report
for the year ended
31 December 2006






# BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 plc

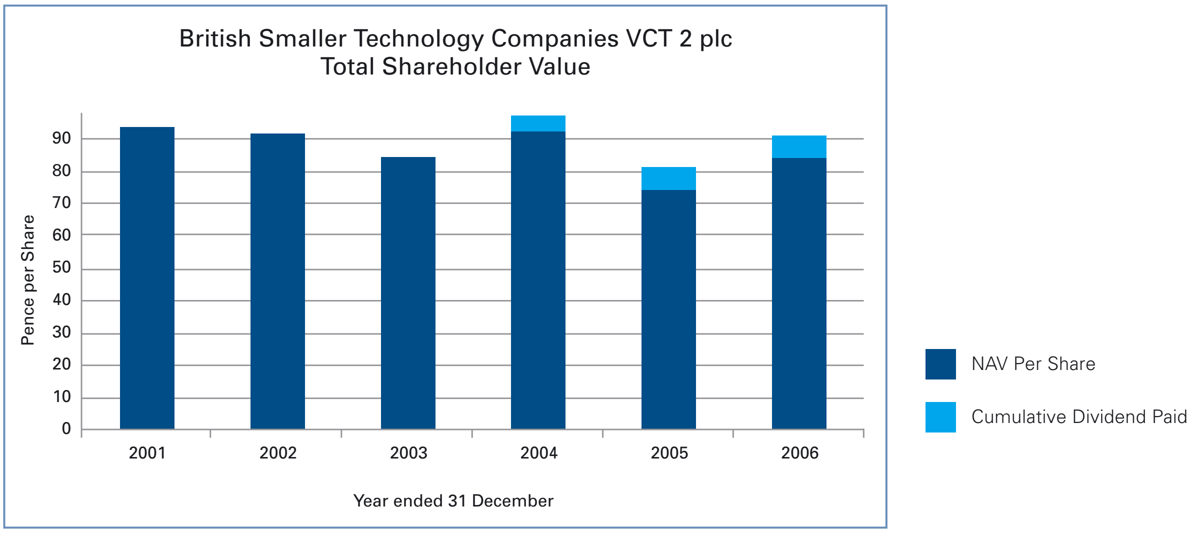
# Contents



# Financial Highlights

| | **2006** | 2005 |
|---|---|---|
| Profit (loss) for the year | **£1,515,000** | (£421,000) |
| Dividend per share paid and payable | **2.0p** | 2.0p |
| Net asset value | **£13,936,000** | £12,840,000 |
| Net asset value per share | **83.7p** | 74.2p |
| Total return per share | **90.7p** | 81.2p |

The chart below shows how the total return of your Company, calculated by reference to the net asset value per share plus cumulative dividends paid per share, has developed over the years since inception.




# Financial Calendar

| | | | |
|---|---|---|---|
| Results Announced | 3 April 2007 | Ex-dividend Date | 11 April 2007 |
| Record Date | 13 April 2007 | Annual General Meeting | 22 May 2007 |
| | | Dividend Payment Date | 25 May 2007 |

# Chairman's Statement

The year under review has seen your Company take positive steps forward following the successful acquisition of British Smaller Technology Companies VCT plc at the end of 2005. In this, the first full financial year of the enlarged Company, net asset value per share has grown by 12.8% due to successful realisations and the stabilisation of the remaining portfolio, which has shown encouraging signs of recovery and growth potential.

## Operations

2006 has seen the portfolio stabilise and mature. Progress has been made by a number of companies within the portfolio as these businesses gain critical volume of sales and move into profitability. This progress is reflected in the net unrealised valuation gain of £473,000. Further details on the portfolio companies are included within the Investment Adviser's Review.

Your board and its Investment Adviser have seen a good flow of propositions during the year. However, entry valuations sought for these businesses have, in general, been overly optimistic and we took the decision to be very selective in the deals we progressed. In the event, a total of £276,000 was invested in the year.

In addition to the new investment in AIM quoted Brulines plc and follow-on investments in DxS Limited and Silistix Limited to support their continuing growth, we took the opportunity to invest the residual investment in the secondary management buyout at Tekton Group Limited that followed the successful realisation of our original holding in that company. This new investment is part of a restructuring to allow new institutional investors to take the business through its rapid growth plans.

The second half of the year saw a significant realisation from your Company's portfolio with the sale, on 28 September 2006, of Vibration Technology Limited to Sercel Inc, a multinational company headquartered in Nantes, France. The disposal realised cash proceeds of £2.3 million for your Company, compared to a carrying value at the last reporting date of £1.14 million and an original cost of £1.06 million.

Following the flotations of Oxonica plc and Optos plc, Vibration Technology is another example of the initial investments made by your Company that focused on earlier stage innovative companies, which, typically, can take four to six years to mature to a position that is attractive to potential acquirers or for listing on a quoted market.

For some time, your board has operated an investment strategy of moving toward companies that are at a later stage in their development to give the portfolio a better balance and a more immediate revenue stream, either through ongoing dividends or an earlier realisation profile. This strategy is bearing fruit with your Company's investment in Tekton Group, made in December 2005, being realised in December 2006.

Your board continues to review its investment strategy to ensure it is best positioned to provide growth in shareholder value, with particular reference to the developing portfolio and market conditions. I can report that your board has recently agreed to reserve a proportion of available cash for investing in mature companies of a more generalist nature that are or are expected to become revenue positive at an early stage. Initially, it is intended that these companies will comprise no more than forty per cent of the portfolio. Your directors feel that this broadening of the investment strategy will further enhance shareholder returns over the short to medium term.

## Financial Results and Dividend

The result for the financial year ended 31 December 2006 was a profit of £1.52 million, equivalent to 9.0 pence per share. The prior year result was a loss of £421,000 (loss per share of 5.14 pence per share). The prior year comparison is for the original single entity prior to the acquisition of British Smaller Technology Companies VCT plc. The year under review is for a full year of the combined entity; hence the significant increase in income and administrative expenses.

The cost economies forecast at the time of the acquisition are in evidence from a comparison of the costs of the two independent companies over the prior year compared to the cost base of the combined entity in the current year. The total cost of the two companies in 2005 was £790,000. The cost base of the combined entity in 2006 was £599,000, representing a saving of 24% (ignoring inflationary effects).

As shareholders, you will see the benefits of these cost economies through an improving performance of your Company and improving dividend distributions as realisations from the portfolio are achieved.

The total return, taking account of net asset value plus dividends distributed to date, is now 90.7 pence per share. For the year to 31 December 2006, your directors are recommending distributing some of this value as a tax-free dividend of 2.0 pence per share. This will bring total distributions to 9.0 pence per share. This dividend will be paid on 25 May 2007 to shareholders on the register at 13 April 2007.

# Chairman's Statement

## Shareholder Matters

In the first half of 2006, a total of 665,867 shares were purchased by your Company under its stated share buy-back policy. Following that transaction, your board became aware that further substantial shareholdings were about to be offered for buy-back. This would have significantly reduced the available cash for investing in, and growing, the current portfolio, which, the board believes, is not in the interests of shareholders as a whole. Your directors believe that the investment strategy for bringing later stage growing businesses into the portfolio, and the active support of the successful companies already in the portfolio, will bring stability and recovery to shareholder value. Therefore, your board took the decision to withdraw the Company's share buy-back policy for an indefinite period.

An inevitable consequence of this decision has been to increase the discount between the share price and the reported net asset value. This is unfortunate but does reflect the long term nature of VCT shares and the effect of the legislation that only offers tax relief on a subscription to new shares. We continue to work with the Company's brokers to improve secondary market liquidity and the level of the discount, with some progress being made in the last quarter of the year.

With the revised investment strategy already showing evidence of success and the earlier stage portfolio companies showing signs of maturity with the requirement, in some cases, for follow-on funding to support their growth plans, your board is focused on reserving cash for these purposes. We will consider the reinstatement of a similar buy-back policy to that operated previously at the appropriate time, but this is unlikely to be in the foreseeable future.

I can confirm that your Company continues to meet all the investment ratios required by legislation to maintain its status as a qualifying VCT.

The Annual General Meeting of the Company will be held at 11.30am on 22 May 2007 at 23 Berkeley Square, Mayfair, London W1J 6HE. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 40.

## Outlook

Early stage companies at the leading edge of technological innovation are inevitably fragile when market conditions change and failure rates can be relatively high. However, those companies that do gain market acceptance can provide their investors with significant returns. Your Company has seen some improvement from these earlier investments as they begin reaching maturity and become attractive to secondary purchasers through either a trade sale or flotation.

With an investment strategy, firstly, to target innovative companies that already have a proven market acceptance and, latterly, to include a proportion of more generalist mainstream businesses, your Company intends to have a balanced portfolio well positioned to provide a more constant rate of growth and tax-free dividend income to shareholders.

Andrew Hugh Smith

Sir Andrew Hugh Smith
Chairman
16 April 2007

## Portfolio Valuation and Realisations at 31 December 2006

| Name of Company | Date of Initial Investment | Location | Industry Sector | Original Cost** £000 | Proceeds Realised to Date £000 | Investment at Valuation £000 | Realised and Unrealised to Date £000 |
|---|---|---|---|---|---|---|---|
| Vibration Technology Ltd | Mar-02 | Glasgow | Industrial Automation | 1,061 | 2,328 | – | 2,328 |
| Digital Healthcare Ltd | Jun-05 | Cambridge | Healthcare | 1,912 | – | 1,912 | 1,912 |
| Amino Technologies plc | Sep-01 | Cambridge | Electronics | 415 | 1,875 | – | 1,875 |
| Cozart plc | Jul-04 | Abingdon | Healthcare | 1,566 | 72 | 1,671 | 1,743 |
| Sarian Systems Ltd | Dec-05 | Ilkley | Telecoms | 928 | – | 1,305 | 1,305 |
| Primal Pictures Ltd | Dec-05 | London | Healthcare | 961 | – | 961 | 961 |
| Immunobiology Ltd | Jun-03 | Cambridge | Healthcare | 600 | – | 600 | 600 |
| Comvurgent Ltd | Dec-05 | Nottingham | Software | 611 | – | 504 | 504 |
| Allergy Therapeutics plc | Oct-04 | Worthing | Healthcare | 350 | – | 460 | 460 |
| Silistix Ltd | Dec-03 | Manchester | Software | 463 | – | 377 | 377 |
| Oxonica plc | May-02 | Oxford | Chemical | 241 | 255 | 115 | 370 |
| Optos plc | Dec-05 | Dunfermline | Healthcare | 153 | 93 | 242 | 335 |
| ART Technology Group Inc | Apr-03 | Cambridge, USA | Software | 275 | – | 300 | 300 |
| Tekton Group Ltd | Dec-05 | Manchester | Software | 100 | 220 | – | 220 |
| DxS Ltd | Apr-04 | Manchester | Healthcare | 163 | – | 163 | 163 |
| Arakis Ltd | Mar-04 | Essex | Healthcare | 14 | 108 | – | 108 |
| Infinite Data Storage Ltd | Mar-02 | Dunfermline | Software | 425 | – | 100 | 100 |
| Cambridge Cognition Ltd | May-02 | Cambridge | Software | 240 | – | 96 | 96 |
| Brulines plc | Oct-06 | Stockton-on-Tees | Software | 81 | – | 96 | 96 |
| Sosei Co., Ltd | Aug-05 | Toyko, Japan | Healthcare | 158 | 94 | – | 94 |
| Voxar Ltd | Dec-05 | Edinburgh | Software | – | 87 | – | 87 |
| Solcom Ltd | Dec-05 | Ryde | Software | – | – | 56 | 56 |
| Hallco 1389 Ltd | Dec-06 | Manchester | Software | 49 | – | 49 | 49 |
| Sirus Pharmaceuticals Ltd | Sep-01 | Cambridge | Healthcare | 270 | 14 | – | 14 |
| Broadreach Networks Ltd* | Feb-03 | London | Telecoms | 550 | 11 | – | 11 |
| Focus Solutions Group plc | Dec-05 | Leamington Spa | Software | 7 | 7 | – | 7 |
| Hallco 1390 Ltd | Dec-06 | Manchester | Software | 1 | – | 1 | 1 |
| Other investments | | | | 1,068 | – | – | – |
| Total realised and unrealised to date | | | | **12,662** | **5,164** | **9,008** | **14,172** |

* In Receivership

** Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc

## Investment Portfolio by current value as at 31 December 2006

This section describes the business of the active companies in the portfolio. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment set out below.

The investments marked with an asterix result in whole or in part from the acquisition of British Smaller Technology Companies VCT plc. The stated cost of these investments represents the original amount invested by the Company (if any) plus the fair value ascribed to that investment at the time of the acquisition. Therefore, for these investments, the cost figure does not necessarily represent the total cash invested by the two VCTs in that particular business.

### Digital Healthcare Limited*

Cambridge
www.digital-healthcare.co.uk

| | |
|---|---|
| Cost | £1,912,537 |
| Valuation | £1,912,537 |
| Dates of investment | June & December 2005 |
| Equity held | 28.31% |
| Valuation basis | Price of recent investment, reviewed for impairment |

| Year ended 30 September | **2006 £million** | 2005 £million |
|---|---|---|
| Sales | **2.08** | 1.10 |
| Loss before tax | **0.87** | 0.77 |
| Retained loss | **0.77** | 0.67 |
| Net assets | **1.40** | 2.18 |

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric sectors of the healthcare market.

### Cozart plc*

Abingdon
www.cozart.co.uk

| | |
|---|---|
| Cost | £1,518,924 |
| Valuation | £1,670,799 |
| Dates of investment | July 2004, April 2005 & December 2005 |
| Equity held | 4.90% |
| Valuation basis | Quoted bid price |

| Year ended 31 May | **2006 £million** | 2005 £million |
|---|---|---|
| Sales | **11.1** | 4.74 |
| Profit (loss) before tax | **0.3** | (0.45) |
| Retained profit (loss) | **0.2** | (0.50) |
| Net assets | **9.1** | 6.1 |

Cozart is a medical diagnostics company specialising in the development and supply of testing devices for drugs of abuse. The investment was made in July 2004 at the time of the company's admission to AIM when it raised £20 million for expansion and acquisition opportunities.

### Sarian Systems Limited*

Ilkley
www.sarian.co.uk

| | |
|---|---|
| Cost | £928,435 |
| Valuation | £1,304,982 |
| Date of investment | December 2005 |
| Equity held | 17.60% |
| Valuation basis | Earnings multiple |

| Year ended 30 June | **2005 £million** | 2004 £million |
|---|---|---|
| Sales | **3.29** | 2.24 |
| Profit before tax | **0.61** | 0.34 |
| Retained profit | **0.44** | 0.24 |
| Net assets | **1.25** | 0.80 |

Sarian is the UK's premier manufacturer of IP routing products designed specifically for the Transaction Processing and Telemetry markets.

## Primal Pictures Limited*

London
www.primalpictures.com

| | |
|---|---|
| Cost | £961,422 |
| Valuation | £961,422 |
| Date of investment | December 2005 |
| Equity held | 16.64% |
| Valuation basis | Price of recent investment, reviewed for impairment |

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons.

| Year ended 31 December | **2005** **£million** | 2004 restated £million |
|---|---|---|
| Sales | **1.93** | 2.27 |
| Loss before tax | **0.50** | 0.18 |
| Retained loss | **0.38** | 0.08 |
| Net liabilities | **1.84** | 1.45 |

## Immunobiology Limited*

Cambridge
www.immbio.com

| | |
|---|---|
| Cost | £600,000 |
| Valuation | £600,000 |
| Dates of investment | June & December 2003, November & December 2005 |
| Equity held | 14.12% |
| Valuation basis | Price of recent investment, reviewed for impairment |

Immunobiology is developing high efficacy vaccines for infectious diseases based on Heat Shock Protein Complexes. Your Company joined a syndicate raising £2.6 million in November 2005 to finance the ongoing vaccine development work.

| Year ended 31 May | **2005** **£million** | 2004 £million |
|---|---|---|
| Sales | **0.42** | 0.26 |
| Loss before tax | **0.40** | 0.26 |
| Retained loss | **0.34** | 0.21 |
| Net assets | **0.19** | 0.53 |

## Comvurgent Limited*

Nottingham
www.comvurgent.com

| | |
|---|---|
| Cost | £611,392 |
| Valuation | £504,169 |
| Date of investment | December 2005 |
| Equity held | 13.59% |
| Valuation basis | Price of recent investment |

Comvurgent has developed a range of Voice Over Internet Protocol (VOIP) products for the telecommunications market. In May 2006 it raised £300,000 from a third party investor to provide working capital for the growing sales book.

| Year ended 31 December | **2003** **£million** | 2002 £million |
|---|---|---|
| Net liabilities | **1.02** | 0.93 |

Comvurgent has a small company exemption from filing audited financial statements at Companies House.

## Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

| | |
|---|---|
| Cost | £350,114 |
| Valuation | £460,370 |
| Dates of investment | October 2004 & April 2005 |
| Equity held | 0.59% |
| Valuation basis | Quoted bid price |

Allergy Therapeutics specialises in the treatment and prevention of allergies. It floated on AIM in October 2004 at a market capitalisation of £46 million and raised £16 million.

| Year ended 30 June | **2006 £million** | 2005 £million |
|---|---|---|
| Sales | **23.56** | 20.61 |
| Loss before tax | **6.12** | 1.93 |
| Retained loss | **6.12** | 1.93 |
| Net assets | **32.70** | 20.08 |

## Silistix Limited

Manchester
www.silistix.com

| | |
|---|---|
| Cost | £463,682 |
| Valuation | £376,745 |
| Dates of investment | June & December 2005, July 2006 |
| Equity held | 8.48% |
| Valuation basis | Price of recent investment |

Silistix is a start-up spin-out from the University of Manchester producing a self-timed silicon chip which promises faster and easier chip design and reduced energy consumption. During 2006 and early 2007, it has raised £3 million to finalise its asynchronous chip designs.

| Year ended 31 October | **2005 £million** | 2004 £million |
|---|---|---|
| Sales | **Nil** | Nil |
| Loss before tax | **1.26** | 0.78 |
| Retained loss | **1.14** | 0.71 |
| Net assets | **0.26** | 1.40 |

## The ART Technology Group Inc.

Cambridge, USA
www.atg.com

| | |
|---|---|
| Cost | £275,000 |
| Valuation | £300,546 |
| Date of investment | April 2003 |
| Equity held | 0.20% |
| Valuation basis | Quoted bid price |

The investment in the Art Technology Group Inc arose from an original investment in Belfast based Amacis Limited. The company's technology enables multi-language automated handling of text, e-mail and SMS messages.

| Year ended 31 December | **2005 $million** | 2004 $million |
|---|---|---|
| Sales | **90.65** | 69.22 |
| Profit (loss) before tax | **5.80** | (9.59) |
| Retained profit (loss) | **5.77** | (9.54) |
| Net assets | **92.77** | 97.80 |

## Optos plc*

Dunfermline
www.optos.com

| | |
|---|---|
| Cost | £114,587 |
| Valuation | £242,122 |
| Date of investment | December 2005 |
| Equity held | 0.17% |
| Valuation basis | Quoted bid price |

Optos has developed scanning laser ophthalmoscope technology that greatly assists optometrists being able to produce a high resolution scan of 80% of the retina in only quarter of a second. Optos floated in February 2006, raising $48.7 million net of costs at a market capitalisation of £165 million.

| Year ended 30 September | **2006** **$million** | 2005 $million |
|---|---|---|
| Sales | **67.72** | 48.40 |
| Loss before tax | **1.10** | 2.59 |
| Retained profit (loss) | **10.81** | (2.20) |
| Net assets (liabilities) | **51.34** | (21.03) |

## DxS Limited

Manchester
www.dxsgenotyping.com

| | |
|---|---|
| Cost | £162,750 |
| Valuation | £162,750 |
| Dates of investment | April 2004 & December 2006 |
| Equity held | 4.15% |
| Valuation basis | Price of recent investment, reviewed for impairment |

DxS provides genetic analysis services to support clinical development and enable the delivery of pharmacodiagnostics to support future therapies. In December 2006 it raised a third round of £500,000 to finance its genotyping services.

| Year ended 30 June | **2006** **£million** | 2005 restated £million |
|---|---|---|
| Sales | **1.16** | 1.18 |
| Loss before tax | **0.50** | 0.66 |
| Retained loss | **0.46** | 0.60 |
| Net liabilities | **2.93** | 2.48 |

## Oxonica plc

Oxford
www.oxonica.com

| | |
|---|---|
| Cost | £62,107 |
| Valuation | £114,649 |
| Dates of investment | May 2002, December 2002, January 2005 & August 2005 |
| Equity held | 0.43% |
| Valuation basis | Quoted bid price |

Oxonica is one of Europe's leading nanomaterials companies. Oxonica floated on AIM in July 2005, raising £9.1 million net in total, and valuing the business at £35.3m. In February 2006, a further £12.6 million in shares were issued to finance the acquisition of Nanoplex.

| Year ended 31 December | **2005** **£million** | 2004 £million |
|---|---|---|
| Sales | **1.25** | 0.39 |
| Loss before tax | **4.33** | 3.29 |
| Retained loss | **4.42** | 3.16 |
| Net assets (liabilities) | **6.00** | (1.77) |

## Infinite Data Storage Limited

Dunfermline
www.infinitedatastorage.com

| | |
|---|---|
| Cost | £425,013 |
| Valuation | £100,008 |
| Dates of investment | March 2002, November 2002, June 2004, October 2004 & December 2005 |
| Equity held | 3.08% |
| Valuation basis | Price of recent investment, reviewed for impairment |

Infinite Data Storage is a developer of personal data storage technologies. It raised £812,000 in a follow-on investment round in December 2005 to provide ongoing working capital.

| Year ended 31 December | **2005** **£million** | 2004 £million |
|---|---|---|
| Sales | **2.44** | 2.82 |
| Loss before tax | **1.93** | 2.01 |
| Retained loss | **1.76** | 1.79 |
| Net (liabilities) assets | **(0.05)** | 0.94 |

## Cambridge Cognition Limited

Cambridge
www.camcog.com

| | |
|---|---|
| Cost | £240,000 |
| Valuation | £95,979 |
| Date of investment | May 2002 |
| Equity held | 3.24% |
| Valuation basis | Price of recent investment |

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of the progress of a wide variety of mental conditions. It raised £2 million in April 2006 to assist with commercialising its intellectual property and to facilitate a financial re-organisation of the MBO.

| Year ended 31 December | **2005** **£million** | 2004 restated £million |
|---|---|---|
| Sales | **1.78** | 1.31 |
| Loss before tax | **0.54** | 0.89 |
| Retained loss | **0.55** | 0.89 |
| Net assets | **0.58** | 0.55 |

## Brulines plc

Stockton-on-Tees
www.brulines.com

| | |
|---|---|
| Cost | £81,180 |
| Valuation | £95,700 |
| Date of investment | October 2006 |
| Equity held | 0.27% |
| Valuation basis | Quoted bid price |

Brulines is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed on-trade, in particular the tenanted pub sector. Brulines' IPO in October 2006 raised a total of £19.6 million (£7 million net for the company), and valued the business at £29.5 million.

There are currently no audited financial statements available for Brulines.

## Hallco 1389 (formerly Tekton Group) Limited

Manchester
www.tekton-group.com

| | |
|---|---|
| Cost | £48,975 |
| Valuation | £48,975 |
| Date of investment | December 2005 |
| Equity held | 0.00% |
| Valuation basis | Price of recent investment |

The loan investment in the company has arisen as a result of the original investment in Intuita. Your Company realised the majority of its investment in Tekton Group through a secondary management buyout completing in December 2006, a small proportion of its investment was rolled over into the enlarged entity, which raised £4.6 million in total.

There are currently no audited financial statements available for Hallco 1389.

## Hallco 1390 (formerly Tekton Group) Limited

Manchester
www.tekton-group.com

| | |
|---|---|
| Cost | £1,032 |
| Valuation | £1,032 |
| Date of investment | December 2006 |
| Equity held | 0.10% |
| Valuation basis | Price of recent investment |

The investment in the company has arisen as a result of the original investment in Intuita. Your Company realised the majority of its investment in Tekton Group through a secondary management buyout completing in December 2006, a small proportion of its investment was rolled over into the enlarged entity, which raised £4.6 million in total.

There are currently no audited financial statements available for Hallco 1390.

## Solcom Limited*

Ryde
www.solcom.com

| | |
|---|---|
| Cost | £nil |
| Valuation | £55,628 |
| Date of investment | December 2005 |
| Equity held | 12.46% |
| Valuation basis | Earnings multiple |

Solcom provides consulting services for real-time data acquisition and decision making applications.

| Year ended 30 June | **2006 £million** | 2005 £million |
|---|---|---|
| Sales | **0.37** | 0.37 |
| Profit before tax | **0.07** | 0.05 |
| Retained profit | **0.07** | 0.05 |
| Net assets (liabilities) | **0.06** | (0.01) |

# Investment Adviser's Review

## Introduction

It is pleasing to be able to report on the satisfactory progress of the enlarged portfolio in its first full year following the acquisition of the British Smaller Technology Companies VCT on 8 December 2005. Your Investment Adviser has continued to work closely with investee companies and a lively corporate mergers and acquisitions market throughout 2006 has given rise to approaches being made to several of our investee companies, two of which resulted in exits for the Company at attractive prices. These realisations have been the primary drivers for the increase in net asset value, up by 12.8% to 83.7p per share.

During the year your Company completed three new investments. £81,000 was invested in Brulines plc on its admission to AIM and we rolled over a residual investment in the company that purchased Tekton Group Limited. Several of the existing investments showed promise of accelerating growth and development, and follow-on investments totalling £192,000 were made in DxS Limited and Silistix Limited.

Primarily as a result of the successful exits during the year, at 31 December 2006, cash and other near cash resources amounted to £4.98 million.

Consequently, the Company is well positioned to support any financing needs which may arise within the existing portfolio, as well as adding new investments.

## Portfolio Overview

**Progress in 2006**

During the year investments were made in five companies.

| | £000 |
|---|---|
| Brulines new AIM investment | 81 |
| Tekton (Hallco 1389 and 1390) new investments | 3 |
| DxS follow-on investment | 32 |
| Silistix* follow-on investment | 160 |
| | **276** |

*Early in 2007, a further investment of £100,000 was made into Silistix as part of a £1.1 million funding round, bringing the total invested in this company to £564,000.*

In February 2006, Optos plc achieved a full listing on the London Stock Exchange main market, raising £30 million at a market capitalisation of £165 million.

In October 2006, Brulines plc listed on AIM in an oversubscribed placing, which raised £19.5 million at a capitalisation of £29.6 million. Brulines is involved in the design and manufacture of sophisticated monitoring equipment which is installed in public houses to reduce the loss of beverage sales resulting from tenants buying outside the 'tied' contract.

The investment in DxS Limited, the pharmacodiagnostics company, was made as part of a £500,000 round. This funding should allow the company to press ahead with the licensing of its Scorpions™, AMRs and genotyping technologies. This is still an early stage company but significant licences have been sold and technology value is mounting.

After some managerial changes, the Silistix asynchronous chip technology is being well received in the market place. The beneficial commercial implications of its energy and heat reducing chip designs could have considerable impact in the increasingly mobile community.

**Realisations**

Two significant realisations of investments were achieved during the year. The first, the sale of Vibration Technology Limited to Sercel in September 2006, realised a profit of £1.27 million for the Company, representing a 2.2 times cash return. This represented an excellent return from the company reflecting the strategic value to their industry of the product they had developed.

As part of Tekton's expansion strategy, your Company took the opportunity to realise its shareholding alongside the management of the company and re-invest a small proportion of the original investment in the enlarged group. As a consequence, the Company received a return of 2.1 times cash invested, or an IRR of 112%, on an investment that had been held for only one year. The re-investment provides the Company with a secured loan and a 0.1% equity stake in a business we know well and which is capable of delivering further growth in the future.

**Performance History**

The chart in the Financial Highlights Section on page 2 shows how the total return of your Company, calculated by reference to the net asset value per share plus cumulative dividends paid per share, has developed over the years since inception.

**Conclusions and Outlook**

The year under review has been one of stability and recovery. The integration of the British Smaller Technology Companies VCT plc has been successfully accomplished with the realisation of reduced operating and administrative costs. The portfolio spread has been widened, thus reducing risk. The policy of investing in later stage businesses continues to be implemented and is anticipated to increase in order to provide a revenue stream from which costs and fees can be met. Two excellent realisations have been achieved and the balance sheet is in good condition to support the continuing activities of the Company. The residual portfolio continues to make progress although there remains some tension between the future valuations and further funding needs of the early stage businesses. However, provided the general market conditions do not deteriorate markedly we would expect to achieve further exits in 2007, whilst adding a number of later stage investments to the portfolio.

David Hall
YFM Private Equity Limited
16 April 2007

# Valuation of Investments

## Initial Measurement

Financial assets are initially measured at fair value. The best estimate of fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

## Subsequent Measurement

The revised International Private Equity and Venture Capital Valuation Guidelines identifies six of the most widely used valuation methodologies. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market based data in order to derive a fair value.

## Unquoted Investments

- **Price of recent investment**. This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but is only considered relevant for a limited period following the date of the relevant transaction. A period of twelve months is used in practice. During this period, the value of the investment is assessed for changes or events that would imply impairment to the fair value. In addition, the valuation technique also represents certain situations where although the twelve month period has expired, an alternative valuation technique is not followed because an additional investment has been made by the Company at the same price as the previous investment and an alternative valuation technique would not result in a better estimate of fair value. The whole investment is also assessed for impairment.

- **Earnings multiple**. A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company.

- **Net assets**. The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.

- **Discounted cash flows of the underlying business**. The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- **Discounted cash flows from the investment**. Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- **Industry valuation benchmarks**. Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

Discounted cash flows and industry valuation benchmarks are only likely to be reliable as the main basis of estimating fair value in limited situations. Their main use is to support valuations derived using other methodologies and for assessing impairment.

Where an independent third party valuation exists, this will be used as the basis to derive the gross attributable enterprise value of the company. In other cases, the most suitable valuation technique, as set out above, is used to determine this value. This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

## Quoted Investments

Quoted investments are valued at market bid price. No discounts are applied.

# Directors

**Sir Andrew Colin Hugh Smith – Chairman (75)**

Following a career at the Bar and in industry, 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.

**Philip Simon Cammerman (64)**

Has 20 years of industrial experience in engineering and technology industries and has worked in both the USA and the UK. He has spent the last 22 years in the venture capital industry and is a director of YFM Private Equity Limited and YFM Group Limited. He has been responsible for a wide range of venture capital investments in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Companies VCT plc.

**Richard Last (49)**

Qualified as a chartered accountant with Coopers & Lybrand and is chief executive of Lynx plc, a computer software, systems and services group. He is chairman and non-executive director of Xpertise Group plc, an AIM-quoted IT training group and is a non-executive director of Pat Systems plc and British Smaller Companies VCT plc.

**Stephen John Noar (59)**

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 Companies VCT plc and also Cozart plc following the investment in this company. Up until his resignation in November 2005, Stephen was also a non-executive director of Purely Proteins Limited.

**Robert Martin Pettigrew (62)**

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, lasers and laser applications. He is a non-executive director of British Smaller Companies VCT plc and also Digital Healthcare Limited and Oxonica plc following investments in these companies.

**Secretary and Registered Office**

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

**Registered No: 4084003**

## For the Year Ended 31 December 2006

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the year ended 31 December 2006.

## Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ.

The Company has its primary, and sole, listing on the London Stock Exchange.

The Company operates as a venture capital trust and has been approved by HM Revenue & Customs as an authorised venture capital trust under Section 842AA of the Income and Corporation Taxes Act 1988. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988.

## Business Review

As in previous years, a review of the business's activities over the past 12 months and the outlook for future developments are included within the Chairman's Statement and Investment Adviser's Review. The Company, in common with the venture capital trust industry, does not have any employees apart from the five directors. The business and administrative duties of the Company are contracted to the Investment Adviser, YFM Private Equity Limited, with the Board retaining the key decision matters for approval. Hence, the Board manages the business affairs of the Company through regular management reports from YFM Private Equity and, through this process, ensures that it has sufficient resources to carry out its functions.

## Principal risks, risk management and regulatory environment

The Board believes that the principal risks faced by the Company are:

Investment and strategic – quality of enquiries, investments, investee company management teams and monitoring. The risk of not identifying investee under performance might lead to this company's under performance and poor returns to shareholders.

Loss of approval as a Venture Capital Trust – the Company must comply with Section 842AA of the Income and Corporation Taxes Act 1988 which allows it to be exempted from capital gains tax on investment realisations. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay their income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains. As such, one of the key performance indicators monitored by the Company is the compliance with legislative tests. See below for more detail.

Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and the International Accounting Standards. Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

Operational – failure of the Investment Adviser's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Market Risk – lack of liquidity in both the venture capital and public markets. Investment in AIM-traded and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Liquidity Risk – The Company's investments may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

The Board seeks to mitigate the internal risks by setting policies, regular review of performance, monitoring progress and compliance. The key performance indicators measure the Company's performance and its compliance with legislative tests. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in the "Turnbull" guidance. Details of the Company's internal controls are contained in the Internal Control and Corporate Governance sections on pages 19 and 20.

## Key Performance Indicators

The Company monitors a number of Key Performance Indicators as detailed below:

### Total Return

The recognised measurement of financial performance in the industry is that of Total Return (expressed in pence per share) calculated by adding the total cumulative dividend paid to shareholders from the date the Company was launched to the current reporting date, inclusive of any recoverable tax credits, to the net asset value at that date.

The chart showing the Total Return of your Company is included within the Financial Highlights on page 2.

The evaluation of comparative success of the Company's total return is by way of reference to the net cost of investment for the founder eligible shareholder which was 80 pence per share (net of 20% basic tax relief) and by comparison to the FTSE™ techMARK™ All-Share Index over that same period. This is the Company's stated benchmark index. A comparison of this return is shown in the Directors' Remuneration Report.

### Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. Under section 842AA of the Income and Corporation Taxes Act 1988, in addition to the requirement for a VCT's Ordinary capital to be listed in the Official List on the London Stock Exchange throughout the period, there are a further five specific tests that VCTs must meet on a continuing basis following the initial three year provisional period.

The Board can confirm that all of the VCT legislative tests have been met during the period, as verified by independent specialists.

## Results and Dividends

The profit on ordinary activities after taxation for the year amounted to £1,515,000 (2005: loss of £421,000).

The directors propose the payment of a final dividend of 2.0p per Ordinary share (2005: nil).

The net asset value per Ordinary share at 31 December 2006 was 83.7p (2005: 74.2p). The transfer to and from reserves is given in The Statement of Changes in Shareholders' Equity on page 27.

## Purchase of Own Shares

On 10 May 2006, the Company purchased for cancellation, under existing authority granted by the shareholders, 665,867 Ordinary shares of 10p each in the market, representing 3.85% of the issued, called-up and fully paid share capital at that date, at a price of 63.0p per share.

On 23 May 2006 the Company withdrew its share buy back policy for an indefinite period. The directors are of the opinion that the interest of the Company's shareholders as a whole would be best served by concentrating the Company's cash resources and management efforts on supporting the expansion plans of key businesses in the Company's existing investment portfolio and selectively making new investments in new business opportunities that have proven market acceptance and provide potential for significant growth. The directors may consider the reintroduction of a similar policy at some future date.

## Trade Payables 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. Although the Company has no trade payables at the year end, the average number of trade payable days during the year was 16 (2005: 23).

## Directors and their Interests

The directors of the Company at 31 December 2006, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 22 to 23.

## 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 40 of these financial statements.

## Independent Auditors

During the year, the Company's auditors, PricewaterhouseCoopers LLP, resigned and the board appointed PKF (UK) LLP as auditors to fill the casual vacancy. A resolution to reappoint PKF (UK) LLP as auditors will be proposed at the Annual General Meeting.

## VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements for Venture Capital Trusts. PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio under the instruction of the Investment Adviser to ensure legislative requirements are properly assessed.

## Events after the Balance Sheet Date

Three venture capital investments have been made following the year end. A £250,000 investment in Cater Plus Services Limited, a £100,000 follow-on investment in Silistix Limited and a £22,000 follow-on investment in Tissuemed Limited. No other significant events have occurred.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that 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.

The financial statements are published at www.yfmgroup.co.uk, which is a website maintained by the Company's Investment Adviser. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and that each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Statement of Corporate Governance

The Board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with, The Principles of Good Governance of the revised Combined Code published in July 2003, (the "Combined Code").

The Board has complied throughout the year, and up to the date of this report, with Section 1 of the Combined Code issued in July 2003, 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, the Chairman acting as chairman of the Audit Committee, and the presumption concerning his independence (see page 18).

### Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board meets at least five times during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

## Board Composition

The Board consists of five non-executive directors, four of whom are regarded by the Board as independent and, also as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company, and taking account of the Chairman's role within the other venture capital trust to which YFM Private Equity Limited is the Investment Adviser, are satisfied that Sir Andrew Hugh Smith continues to fulfil the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 14.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

## Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of the Combined Code, including the need to refresh the Board and its Committees. Any director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting.

The Board recommends the re-election of Mr R M Pettigrew and Mr P S Cammerman, who retire by rotation at this year's AGM, because of their commitment, experience and continued contribution to the Company.

## Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Directors who are not members of committees may attend at the invitation of the Chairman.

The table below details the number of Board and Audit Committee meetings attended by each director. During the year there were five formal Board meetings and two Audit Committee meetings. The directors met via telephone conferences on nine other occasions.

| Director | Board meetings attended | Audit Committee meetings attended |
|---|---|---|
| Sir Andrew Hugh Smith | 5 | 2 |
| Philip Simon Cammerman | 3 | n/a |
| Richard Last | 4 | 1 |
| Stephen John Noar | 5 | 2 |
| Robert Martin Pettigrew | 4 | 2 |

## Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to venture capital trusts.

The performance of the Board has been evaluated in respect of the current financial year. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provision of the Combined Code and included the attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution. Particular attention is paid to those directors who are due for re-appointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

An independent director has similarly appraised the performance of the Chairman, taking account of the views of the directors. He considered that the Chairman's performance continues to be effective and that he continues to demonstrate a commitment to the role. The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that they continue to show commitment to the role.

## Nomination Committee and Remuneration Committee

Due to the size of the Board and the appointment and remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration or Nomination Committee. The Directors' Remuneration Report may be found on pages 22 and 23. Any proposed appointment to the Board is a matter for the whole Board.

## Audit Committee

The Audit Committee consists of the directors who are independent of the Investment Adviser, being Sir Andrew Hugh Smith, R Last, S J Noar and R M Pettigrew, and meets at least twice each year. The directors consider that it is appropriate that the Chairman of the committee should be Sir Andrew Hugh Smith. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Audit Committee reviews the actions and judgements of management in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors.

Representatives of the Company's auditors attend the Committee meeting at which the draft Annual Report and financial statements are considered. The directors' statement on the Company's system of internal control is set out below.

The Audit Committee considers the independence and objectivity of the auditors on an annual basis. The Audit Committee considers that the independence and objectivity of the auditors has not been impaired or compromised.

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the AGM.

## Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by the quarterly publication, through the London Stock Exchange, of the net asset value of the Company's shares, and the daily publication of the Company's quoted share price.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Investment Adviser are available in person to meet with and answer shareholders' questions. In addition, representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry developments. During the year, the Company's broker and the Investment Adviser have held regular discussions with shareholders. The directors are made fully aware of their views. The Chairman and directors make themselves available as and when required to address shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 14.

The Company's Annual Report is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 14. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

## Internal Control

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005, the executive functions of the Company have been subcontracted to YFM Private Equity Limited. 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 YFM Private Equity 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 reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure.
- Regular reviews 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 Company's 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.

The Board confirms the procedures to implement the guidance, *Internal Control: Guidance for Directors on the Combined Code* ("the Turnbull Report"), were in place throughout the year ended 31 December 2006 and up to the date of this report.

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 no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. 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 they have introduced are sufficient to comply with the terms of the Turnbull Report.

The directors have reviewed the effectiveness of the Company's systems of internal control for the year 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.

### Corporate Governance and Voting Policy

The Company delegates responsibility for monitoring its investments to YFM Private Equity Limited whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which its clients invest. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of investee company performance in accordance with best practice in the private equity sector.

### 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.

## Investment Policy

The Investment Adviser, YFM Private Equity 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 YFM Private Equity 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 YFM Private Equity 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 cash equivalents due to their use as temporary holdings, whilst venture capital opportunities arise, and the nature of their liquidity.

## Financial Instruments

Further information on financial instruments is provided in Note 9 to the financial statements.

## Financial Assets

Investments made in suitable qualifying holdings will predominantly comprise Ordinary shares with, in some instances, either fixed rate coupon Preference shares or debenture loans. Each investment is valued in accordance with the policy set out on page 13 of this report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date.

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 2006 can be found in the Investment Adviser's Review and notes 8 and 9 to these Financial Statements.

This report was approved by the Board on 16 April 2007 and signed on its behalf.

J E P Gervasio
Company Secretary

# Directors' Remuneration Report

The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee.

## Directors and their Interests

The directors of the Company at 31 December 2006 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 2006** | 31 December 2005 |
| | **£** | £ |
| Sir Andrew Hugh Smith | **44,225** | 44,225 |
| P S Cammerman | **22,115** | 22,115 |
| R Last | **18,925** | 18,925 |
| S J Noar | **25,792** | 25,792 |
| R M Pettigrew | **37,524** | 37,524 |

None of the directors have subscribed for further shares since the year end. None of the directors held any option to acquire additional shares at the end of the year.

Brief biographical notes on the directors are given on page 14. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves office.

The Company had no employees in either year.

## Administration

YFM Private Equity Limited 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. YFM Private Equity Limited is authorised by the Financial Services Authority. Mr Cammerman is a director of YFM Private Equity Limited and has a beneficial shareholding in its ultimate parent company, YFM Group (Holdings) Limited.

Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity 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 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in either year under this agreement. By a Deed of Assignment dated 19 December 2004 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Mr Cammerman is one of the beneficiaries of that Trust.

## Basic Remuneration

Total directors' remuneration for the year amounted to £67,500 (2005: £36,629) all of which, in both years was paid to four individuals for services as directors. There were no payments to third parties in respect of directors' services (2005: £nil).

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

| | **Year ended 31 December 2006** | Year ended 31 December 2005 |
|---|---|---|
| | **£** | £ |
| Sir Andrew Hugh Smith | **23,475** | 12,740 |
| P S Cammerman | **–** | – |
| R Last | **14,675** | 7,963 |
| S J Noar | **14,675** | 7,963 |
| R M Pettigrew | **14,675** | 7,963 |

This year's cost represents a full year's remuneration for the enlarged company. Annual remuneration of the two companies has reduced 16% as a result of the acquisition.

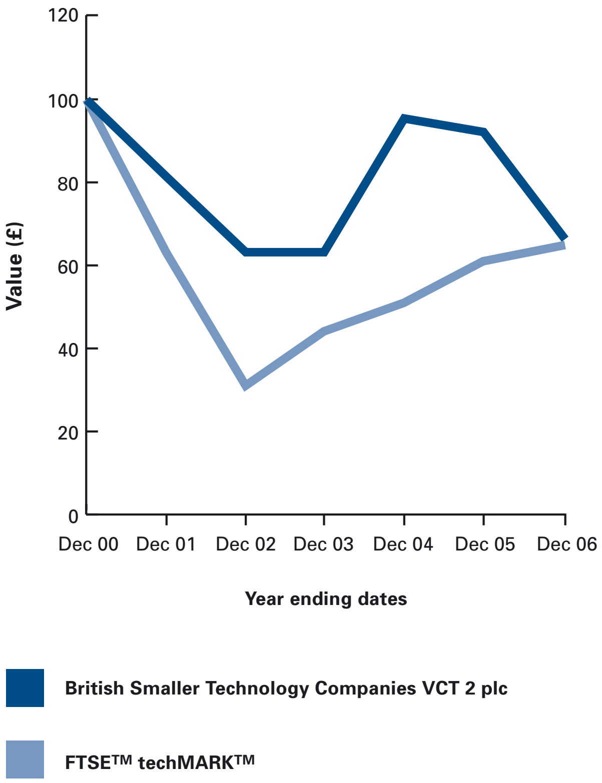
There are no directors who are remunerated as executive directors (2005: Nil). Mr Cammerman, who is a director of the Company's Investment Adviser, received no fees for his services as a director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity Limited is considered to relate to his role with the Company.

It is the Company's policy not to provide any performance related emoluments, benefits in kind, any other emoluments or pension contributions to any director. No director is entitled to shares under any share option or long-term incentive schemes.

The 'Basic Remuneration' section is the only section of the Directors' Remuneration Report subject to audit. All other sections are not subject to audit.

## Performance Graph

The graph below shows a comparison between the Company's share price compared with the companies in the FTSE™ techMARK™ All-Share Index for the period from the first allotment of shares to 31 December 2006. The graph looks at the value, by the end of 2006, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ techMARK™ All-Share Index. The directors consider this to be the most appropriate published index on which to report on comparative performance given the technology focus of the Company's investment criteria, whilst recognising that the Company's investments are invariably in relatively early stage unquoted companies.




This report was approved by the Board on 16 April 2007 and signed on its behalf.

Sir Andrew Hugh Smith
Chairman

# Independent Auditors' Report

## To the Members of British Smaller Technology Companies VCT 2 plc

We have audited the financial statements of British Smaller Technology Companies VCT 2 plc for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Changes In Shareholders' Equity, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's Statement and Investment Adviser's Review that is cross referenced from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Investment Adviser's Review, the Directors' Report including the Business Review and Corporate Governance Statement, and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**PKF (UK) LLP**
Registered Auditors
London
16 April 2007

# Income Statement

## For the year ended 31 December 2006

| | Notes | 2006 £000 | 2005 £000 |
|---|---|---|---|
| Income | 2 | **220** | 82 |
| Administrative expenses: | 3 | | |
| Investment advisory fee | | **(371)** | (172) |
| Other expenses | | **(228)** | (186) |
| | | **(599)** | (358) |
| Excess of acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost | 4 | **–** | 975 |
| Gain on realisation of investments | 8 | **1,421** | 251 |
| Gains (losses) on investments held at fair value | 8 | **473** | (1,371) |
| **Profit (loss) on ordinary activities before taxation** | | **1,515** | (421) |
| Taxation | 5 | **–** | – |
| **Profit (loss) for the year from continuing operations** | | **1,515** | (421) |
| **Earnings (loss) per Ordinary share basic and diluted** | 7 | **9.0p** | (5.14)p |

**Notes**

The accompanying notes on pages 29 to 38 are an integral part of these financial statements.

# Balance Sheet

## At 31 December 2006

| | Notes | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments at fair value through profit or loss | 8 | **9,008** | 9,503 |
| **Current assets** | | | |
| Trade and other receivables | 10 | **335** | 150 |
| Cash and cash equivalents | 11 | **4,984** | 3,834 |
| | | **5,319** | 3,984 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | **(391)** | (647) |
| **Net current assets** | | **4,928** | 3,337 |
| **Net assets** | | **13,936** | 12,840 |
| **Shareholders' equity** | | | |
| Share capital | 13 | **1,664** | 1,731 |
| Share premium | | **69** | 69 |
| Capital redemption reserve | | **88** | 21 |
| Merger reserve | | **5,525** | 5,525 |
| Other reserve | | **2** | 2 |
| Retained earnings | | **6,588** | 5,492 |
| **Total Shareholders' equity** | | **13,936** | 12,840 |
| **Net asset value per Ordinary share** | 14 | **83.7p** | 74.2p |

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 16 April 2007.

**Sir Andrew Hugh Smith**
**Chairman**

The accompanying notes on pages 29 to 38 are an integral part of these financial statements.

# Statement of Changes in Shareholders' Equity

| | Share capital £000 | Share premium account £000 | Revaluation reserve £000 | Merger reserve £000 | Special reserve £000 | *Other reserves £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 31 December 2004 | 783 | 9 | 223 | – | 5,364 | 6 | 1,221 | 7,606 |
| Loss for the year | – | – | – | – | – | – | (421) | (421) |
| Transfer of the revaluation reserve on adoption of IAS39 | – | – | (223) | – | – | – | 223 | – |
| Dividends | – | – | – | – | – | – | (738) | (738) |
| Purchase of own shares | (20) | – | – | – | (159) | 20 | – | (159) |
| Exercise of warrants | 1 | 8 | – | – | – | (1) | – | 8 |
| Issue of share capital on acquisition | 959 | – | – | 5,561 | – | – | – | 6,520 |
| Issue costs | – | – | – | (36) | – | – | – | (36) |
| Issue of share capital on DRIS** | 8 | 52 | – | – | – | – | – | 60 |
| Transfer of the special reserve | – | – | – | – | (5,205) | – | 5,205 | – |
| Transfer of the warrant reserve | – | – | – | – | – | (2) | 2 | – |
| **Balance at 31 December 2005** | **1,731** | **69** | **–** | **5,525** | **–** | **23** | **5,492** | **12,840** |
| Profit for the year | – | – | – | – | – | – | 1,515 | 1,515 |
| Purchase of own shares | (67) | – | – | – | – | 67 | (419) | (419) |
| **Balance at 31 December 2006** | **1,664** | **69** | **–** | **5,525** | **–** | **90** | **6,588** | **13,936** |

The accompanying notes on pages 29 to 38 are an integral part of these financial statements.

The above table includes prior year comparatives.

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable.
** DRIS being the Dividend Re-investment Scheme.

The Merger reserve was created to account for the difference between the nominal and fair value of shares issued as consideration for the acquisition of the assets and liabilities of British Smaller Technology Companies VCT plc. The reserve was created after meeting the criteria under section 131 of the Companies Act 1985 for merger relief. The merger reserve is a non-distributable reserve.

Retained earnings includes a special distributable reserve of £5,205,000 which was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account and is available for use for other corporate purposes of the Company.

Included within retained earnings, in respect of unrealised gains on investments held at fair value through profit or loss is £1,211,000 (2005: £632,000). These gains are not distributable under the Companies Act 1985.

# Cash Flow Statement

## For the year ended 31 December 2006

| | Notes | 2006 £000 | 2005 £000 |
|---|---|---|---|
| **Net cash flows from operating activities** | 15 | **(393)** | (290) |
| **Cash flows from investing activities** | | | |
| Cash acquired | 17 | **–** | 1,386 |
| Costs of acquisition | 17 | **(172)** | (39) |
| Cost of acquisition net of cash acquired | | **(172)** | 1,347 |
| Purchase of fixed asset investments | 8 | **(276)** | (867) |
| Proceeds from sale of fixed asset investments | | **2,875** | 331 |
| **Net cash from investing activities** | | **2,427** | 811 |
| **Cash flows from financing activities** | | | |
| Issue of Ordinary shares on exercise of warrants | | **–** | 8 |
| Issue costs in respect of the shares issued in consideration for the acquisition | | **–** | (36) |
| Purchase of own shares and associated warrants | | **(419)** | (159) |
| Dividends paid | | **(346)** | (332) |
| **Net cash used in financing activities** | | **(765)** | (519) |
| **Net increase in cash and cash equivalents** | | **1,269** | 2 |
| **Cash and cash equivalents at beginning of the year** | | **3,834** | 3,824 |
| Effect of market value changes in cash equivalents | 8 | **(119)** | 8 |
| **Cash and cash equivalents at the end of the year** | 11,16 | **4,984** | 3,834 |

The accompanying notes on pages 29 to 38 are an integral part of these financial statements.

# Notes to the Financial Statements

**For the year ended 31 December 2006**

## 1. Principal Accounting Policies

### Basis of preparation

The accounts have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and 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.

### Investments held at fair value through profit or loss

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest cash resources in venture capital investments as part of the Company's long-term capital growth strategy. Consequently, all investments are classified as held at fair value through profit or loss.

Transaction costs on purchases are expensed immediately through the Income Statement in accordance with IFRS.

All investments are measured at fair value with gains and losses arising from changes in fair value being included in the Income Statement as gains (losses) on investments held at fair value.

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial Instruments: Recognition and measurement' and, where appropriate, the International Private Equity and Venture Capital Valuation Guidelines issued in October 2006. A detailed explanation of the valuation policies of the Company is included on page 13.

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio. Accordingly, and as permitted by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

Under IAS 27 'Consolidated and separate financial statements' control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power by a number of means. The company does not hold more than 50% of the equity of any of the companies within the portfolio. In addition, it does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

### 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.

## Cash and Cash Equivalents

Investments in quoted Government Securities are classified as cash equivalents as they meet the definition in IAS 7 'Cash flow statements' of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. Government Securities are valued at market bid prices.

## Taxation

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), no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

Deferred tax is recognised on all temporary differences that have originated, but not reversed, by the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised.

## Foreign Exchange

Foreign currency assets at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of each transaction. Realised losses or profits on exchange, together with differences arising on the translation of foreign currency assets, are taken to the Income Statement.

## Dividends Payable

Dividends payable are recognised only when an obligation exists. Interim dividends are recognised when paid and final and special dividends are recognised when approved by Shareholders in general meetings.

## Segmental Reporting

Business segments are considered to be the primary reporting segment. The directors are of the opinion that the Company has engaged in a single segment of business of investing in equity and debt securities and therefore no segmental reporting is provided.

Geographical segments are considered to be the secondary reporting segment. Investment income and expenses are all derived from one geographical segment being that of the United Kingdom. An analysis of investments and the remaining assets and liabilities of the Company by geographical segment has not been given as the results are not considered to be significant.

## Business Combinations

Under business combinations the purchase consideration is compared to the fair value of the assets and liabilities of the company acquired. Any excess of the fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired over the purchase consideration is credited immediately to the Income Statement.

## Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine the fair value of investments at fair value through the profit or loss.

The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

## 2. Income

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Income from securities: | | |
| – Dividends from unquoted companies | **20** | – |
| – Interest on loans to unquoted companies | **11** | 8 |
| – Fixed interest Government Securities | **167** | 72 |
| Income from investments held at fair value through profit or loss | **198** | 80 |
| Interest on bank deposits | **22** | 2 |
| | **220** | 82 |

## 3. Administrative Expenses

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Investment advisory fee (including irrecoverable VAT) | **371** | 172 |
| Other expenses: | | |
| Administration fee (including irrecoverable VAT) | **51** | 51 |
| Directors' remuneration | **68** | 37 |
| Auditors' remuneration: | | |
| – audit fees | **14** | 20 |
| – non-audit services | **–** | 9 |
| General expenses | **95** | 69 |
| | **228** | 186 |

During the year the Company obtained tax compliance services and VCT compliance monitoring services from the former auditors, PricewaterhouseCoopers LLP, amounting to £2,500 (2005: £2,500) and £7,500 (2005: £6,500) respectively.

YFM Private Equity Limited provides investment advisory services to the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005. The agreement may be terminated by not less than twelve months' notice given by either party. Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity Limited has a performance-related incentive. Further details can be found on page 22.

YFM Private Equity Limited receives an investment advisory fee, payable quarterly in advance, at the rate of 2½% (excluding VAT) of Net Assets, calculated at half-yearly intervals as at 30 June and 31 December.

Under this same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index.

The total remuneration payable to YFM Private Equity Limited in the period (including VAT) was £422,000 (2005: £223,000).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 22 under the heading "Basic Remuneration".

## 4. Acquisition

On 8 December 2005 the Company acquired the assets and liabilities of British Smaller Technology Companies VCT plc. A total of 9,588,347 Ordinary shares, with a fair value (after transaction costs) of £6,602,000, were issued in consideration for the purchase.

During the year the acquisition costs held in creditors at 31 December 2005 were paid. Further details can be found in note 17.

## 5. Taxation on Ordinary Activities

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Corporation tax payable at 19% (2005: 19%) | **–** | – |
| Profit (loss) on ordinary activities before taxation | **1,515** | (421) |
| Profit (loss) on ordinary activities multiplied by standard small company rate of corporation tax in UK of 19% (2005: 19%) | **288** | (80) |
| **Effect of:** | | |
| UK dividends received | **(4)** | – |
| Non taxable (profits) losses on investments | **(360)** | 213 |
| Excess management expenses | **76** | (133) |
| Current tax charge for the year | **–** | – |

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

Deferred tax assets of £245,000 calculated at 22% (2005: £136,000 calculated at 19%) in respect of unrelieved management expenses have not been recognised, as management do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

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

## 6. Dividends

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Final dividend – 2005: nil per share (2004: 5p per share) | **–** | 392 |
| Special interim dividend – 2006: nil per share (2005: 2p per share) | **–** | 346 |
| | **–** | 738 |

A final dividend of 2p per Ordinary share in respect of the year to 31 December 2006, amounting to £333,000 is proposed. This dividend has not been recognised in the year ended 31 December 2006 as the obligation did not exist at the balance sheet date.

The Special interim dividend was recognised in the year ended 31 December 2005 because the special dividend was approved by Shareholders on 30 November 2005.

## 7. Earnings (Loss) per Ordinary Share

The earnings (loss) per Ordinary share is based on the profit from ordinary activities after tax of £1,515,000 (2005: £421,000 net loss) and 16,878,000 (2005: 8,185,000) shares being the weighted average number of shares in issue during the year.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out on page 22. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2006 or 31 December 2005. Consequently, basic and diluted earnings per share are the same for the year ended 31 December 2006 and 31 December 2005.

## 8. Investments at Fair Value through Profit or Loss

Movements in investments at fair value through profit or loss during the year to 31 December 2006 are summarised as follows:

| | Unquoted Investments £000 | Quoted Investments £000 | Total Fixed Asset Investments £000 | Fixed Income Securities £000 | Total £000 |
|---|---|---|---|---|---|
| Opening cost | 8,886 | 2,372 | 11,258 | 2,845 | 14,103 |
| Opening unrealised (loss) gain | (1,561) | (194) | (1,755) | 31 | (1,724) |
| Opening fair value | **7,325** | **2,178** | **9,503** | **2,876** | **12,379** |
| Flotation of unquoted companies | (152) | 152 | – | – | – |
| Additions at cost | 195 | 81 | 276 | 2,866 | 3,142 |
| Disposal proceeds | (2,597) | (187) | (2,784) | (1,164) | (3,948) |
| Net profit (loss) realised on disposal | 1,401 | 34 | 1,435 | (14) | 1,421 |
| Changes in fair value in the year | (48) | 626 | 578 | (105) | 473 |
| | **6,124** | **2,884** | **9,008** | **4,459** | **13,467** |
| Closing cost | 7,816 | 2,402 | 10,218 | 4,543 | 14,761 |
| Closing unrealised (loss) gain | (1,692) | 482 | (1,210) | (84) | (1,294) |
| **Closing fair value** | **6,124** | **2,884** | **9,008** | **4,459** | **13,467** |

The total provisions made against unquoted investments at 31 December 2006 amounted to £487,000. This includes no amounts written off such investments in 2006 and £810,000 in 2005. There were no write offs in 2004.

There have been no individual write downs or provisions during the year which exceeded 5% of the total assets of the Company (2005: none).

YFM Private Equity Limited, the Company's Investment Adviser, also acts as investment adviser or discretionary fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2006 and exclude those companies which are in receivership or liquidation.

| | British Smaller Companies VCT plc £000 | North West Business Investment Scheme £000 | The Second HSBC (UK) Enterprise Fund LP £000 | The Yorkshire Fund LP £000 | Yorkshire Enterprise Finance Limited £000 | Total £000 | Total for this Company £000 |
|---|---|---|---|---|---|---|---|
| Cambridge Cognition Limited | 325 | – | – | – | – | 325 | 240 |
| Comvurgent Limited | – | – | – | – | 150 | 150 | 611 |
| Cozart plc | 451 | – | – | – | – | 451 | 1,519 |
| Digital Healthcare Limited | – | – | – | – | 136 | 136 | 1,912 |
| DxS Limited | – | 175 | – | – | – | 175 | 163 |
| Hallco 1389 (formerly Tekton Group) Limited | 196 | 98 | – | – | – | 294 | 49 |
| Hallco 1390 (formerly Tekton Group) Limited | 4 | 2 | – | – | – | 6 | 1 |
| Primal Pictures Limited | 500 | – | – | – | 106 | 606 | 961 |
| Sarian Systems Limited | – | – | 250 | 250 | – | 500 | 928 |
| Silistix Limited | – | 406 | – | – | – | 406 | 463 |
| Tissuemed Limited | – | – | 100 | – | – | 100 | 25 |

## 9. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year.

The investments are valued in accordance with the policy stated on page 13, therefore, the directors consider all assets to be carried at a valuation which equates to 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 Securities until suitable qualifying investment opportunities arise.

At 31 December 2006 and 31 December 2005, the financial assets, by value, comprised:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **£000** | **%** | £000 | % |
| **Venture capital investments** | | | | |
| Ordinary shares | **8,611** | **61.8** | 8,576 | 66.8 |
| Loan stock | **197** | **1.4** | 727 | 5.7 |
| Preferred Ordinary Shares | **200** | **1.4** | 200 | 1.5 |
| | **9,008** | **64.6** | 9,503 | 74.0 |
| Fixed interest Government Securities | **4,459** | **32.0** | 2,876 | 22.4 |
| Cash | **525** | **3.8** | 958 | 7.5 |
| Other financial assets | **335** | **2.4** | 150 | 1.1 |
| Other financial liabilities | **(391)** | **(2.8)** | (647) | (5.0) |
| | **13,936** | **100.0** | 12,840 | 100.0 |

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 December 2006 was 1.22% (2005: 0.05%). The weighted average period for which these rates applied was nil (2005: nil). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 4.77% (2005: 5.61%) with a weighted average period of 2 years, 0 months (2005: 3 years, 8 months).

Ordinary share investments are excluded from the weighted average interest rate risk analysis in both years as there is no pre-defined maturity date on these investments.

Other financial assets, being prepayments and accrued income and other financial liabilities, being accrued expenses, attract no interest and have an expected maturity date of less than 1 year. The fair value of other financial assets and liabilities is considered not to be materially different from their book value due to their short term maturity.

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 their 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 committed borrowing facilities at either year end.

## 9. Financial Instruments (cont.)

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. The investments in equity and fixed interest stocks of unquoted companies the Company holds are thinly traded, and as such, the prices are more volatile than those of more widely backed securities. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for venture capital trusts.

All financial assets are predominately held in sterling. However, at 31 December 2006 the company had investments valued at £300,000 denominated in US dollars (2005:£295,000) and no investments denominated in Japanese Yen (2005: £115,000).

The Company's total return and balance sheet can be affected by foreign exchange movements due to the Company having assets denominated in currencies other than the Company's base currency (sterling).

The Board has identified three principal areas where foreign currency risk could impact the Company:

- Movements in rates affecting the value of investments
- Movements in rates affecting short-term timing differences
- Movements in rates affecting the income received

The Company has not hedged the sterling value of the investment priced in foreign currencies by the use of derivatives.

The Company might also be subject to short-term exposure from exchange rate movements, for example between the date when an investment is bought or sold and the date when settlement of the transaction occurs. Income denominated in foreign currencies is converted to sterling on receipt.

## 10. Trade and Other Receivables

| | 2006<br>£000 | 2005<br>£000 |
|---|---|---|
| **Amounts receivable within one year:** | | |
| Prepayments and accrued income | **199** | 150 |
| Other debtors | **136** | – |
| | **335** | 150 |

## 11. Cash and Cash Equivalents

| | 2006<br>£000 | 2005<br>£000 |
|---|---|---|
| Cash at bank | **525** | 958 |
| Cash equivalents – fixed interest quoted investments | **4,459** | 2,876 |
| | **4,984** | 3,834 |

## 12. Trade and Other Payables

| | 2006<br>£000 | 2005<br>£000 |
|---|---|---|
| **Amounts payable within one year:** | | |
| Accrued expenses | **164** | 301 |
| Other creditors | **227** | – |
| Approved dividend (see note 6) | **–** | 346 |
| | **391** | 647 |

## 13. Called-up Share Capital

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Authorised** | **Allotted, Called-up and Fully paid** | Authorised | Allotted, Called-up and Fully paid |
| | **£000** | **£000** | £000 | £000 |
| Ordinary shares of 10p | | | | |
| Authorised: 50,000,000 (2005: 50,000,000) | **5,000** | | 5,000 | |
| Issued: 16,641,257 (2005: 17,307,124) | | **1,664** | | 1,731 |

The movement in the year was as follows:

| | Date | No of Shares | Share Capital £000 |
|---|---|---|---|
| As at 1 January 2006 | | 17,307,124 | 1,731 |
| Purchase of own shares | May 06 | (665,867) | (67) |
| As at 31 December 2006 | | 16,641,257 | 1,664 |

Details of the above transaction can be found in the directors report under the heading "Purchase of Own Shares".

The Company is party to a share based payment arrangement as defined by IFRS 2 'Share based payments'. The details of the arrangement are explained in the "Administration" section of the Directors' Remuneration Report on page 22. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2.

## 14. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £13,936,000 (2005: £12,840,000) and 16,641,257 (2005: 17,307,124) shares in issue at the year end.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out on page 22. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2006 or 31 December 2005. Consequently, basic and diluted net asset value per Ordinary share are the same for the year ended 31 December 2006 and 31 December 2005.

## 15. Reconciliation of Net Profit (Loss) on Ordinary Activities before Taxation to Net Cash Outflow from Operating Activities

| | **2006 £000** | 2005 £000 |
|---|---|---|
| Profit (loss) on ordinary activities before taxation | **1,515** | (421) |
| (Increase) decrease in prepayments and accrued income | **(49)** | 33 |
| Increase (decrease) in accruals | **35** | (47) |
| 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 in the year | **(1,421)** | (251) |
| (Gains) losses on investments held at fair value | **(473)** | 1,371 |
| Net cash outflow from operating activities | **(393)** | (290) |

## 16. Analysis of Changes in Cash and Cash Equivalents

| | 1 January 2006 £000 | Cash Flow £000 | Other non cash changes £000 | **31 December 2006 £000** |
|---|---|---|---|---|
| Cash | 958 | (433) | – | **525** |
| Cash equivalents – fixed interest quoted investments | 2,876 | 1,702 | (119) | **4,459** |
| | 3,834 | 1,269 | (119) | **4,984** |

## 17. Cash Flow on Acquisition

On 8 December 2005 the Company acquired the assets and liabilities of British Smaller Technology Companies VCT plc. The cash flow during the year relates to the balance of the transactions costs paid.

| | **2006 £000** | 2005 £000 |
|---|---|---|
| Investments at fair value through profit or loss | – | 6,320 |
| Accounts receivable | – | 71 |
| Cash equivalents – fixed interest quoted investments | – | 1,338 |
| Cash | – | 48 |
| Trade payables | – | (200) |
| Total purchase price | – | 7,577 |
| Less: excess of acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost | – | (975) |
| Less: market value of shares issued in consideration | – | (6,520) |
| Less: transaction costs | – | (82) |
| Less: cash and cash equivalents | – | (1,386) |
| | – | (1,386) |
| Add back: transaction costs paid | **172** | 39 |
| Cash flow on acquisition net of cash acquired | **172** | (1,347) |

## 18. Financial Commitments

There were 3 investments totalling £372,000 (2005: none) approved by the Board of Directors at 31 December 2006, which have not been reflected in these accounts. Since the year end further investments totalling £400,000 (2005: £nil) had been approved by the Board.

## 19. Related Party Transactions

Mr Cammerman is the Chairman of YFM Private Equity Limited, the Investment Adviser to the Company. Mr Cammerman has no beneficial shareholding in YFM Private Equity Limited in either year.

YFM Group Limited, the parent company of YFM Private Equity Limited, the Investment Adviser to the Company, has investments in Digital Healthcare Limited and Primal Pictures Limited. At 31 December 2006 and 2005 YFM Group's investment in Digital Healthcare was valued at £37,500 and its investment in Primal Pictures Limited was valued at £53,750.

Mr Noar, a director of the Company, is a non-executive director of Cozart plc. The appointment was made pursuant to an agreement following the investment made in that company. During the year Mr Noar received £27,700 (2005: £20,000) from Cozart plc in respect of his services. Mr Noar holds a 0.4% equity stake in Cozart plc. Up until his resignation in November 2005, Mr Noar was a non-executive director of Purely Proteins Limited. No amounts were received from Purely Proteins Limited during the year in respect of his services (2005: £15,000).

Mr Pettigrew, a director of the Company, is a non-executive director of Digital Healthcare Limited and Oxonica plc. The appointments were made pursuant to an agreement following the investments made in those companies. During the year Mr Pettigrew received £12,500 (2005: £10,000) from Digital Healthcare Limited and £20,000 (2005: £13,575) from Oxonica plc in respect of his services. Mr Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.

## 20. Events after the Balance Sheet Date

Details of events after the balance sheet date are set out in the Directors' Report under the heading "Events after the balance sheet date" on page 17.

# Financial Summary

| | Year ended 31 December 2006 | Year ended 31 December 2005 | Year ended 31 December 2004 | Year ended 31 December 2003 | Year ended 31 December 2002 |
|---|---|---|---|---|---|
| Income | £220,000 | £82,000 | £77,000 | £256,000 | £296,000 |
| Profit (loss) on ordinary activities before and after tax | £1,515,000 | £(421,000) | £1,080,000 | £(909,000) | £5,000 |
| Earnings (loss) per ordinary share | 9.0p | (5.14)p | 13.79p | (11.64)p | 0.07p |
| Total recognised gain (loss) per ordinary share | 9.0p | (5.14)p | 13.79p | (7.09)p | (2.41)p |
| Total dividend per share paid and declared in the year | 2.0p | 2.0p | 5.0p | – | – |
| Net assets | £13,936,000 | £12,840,000 | £7,606,000 | £6,616,000 | £7,173,000 |
| Net asset value per share | 83.7p | 74.2p | 97.1p | 84.6p | 91.6p |
| Total return per share | 90.7p | 81.2p | 97.1p | 84.6p | 91.6p |

The accounts were prepared under UK Generally Accepted Accounting Practices in 2002 and 2003 and were prepared under International Financial Reporting Standards in 2004, 2005 and 2006. The consequences of the revocation of investment company status have not been reflected in the disclosures for the year ended 31 December 2002. The profit on ordinary activities before and after tax for that period relates to the revenue return as calculated in accordance with the Statement of Recommended Practice *'Financial Statements of Investment Trust Companies'*.

On 8 December 2005 the Company acquired the assets and liabilities of British Smaller Technology Companies VCT plc resulting in the enlarged VCT.

# Notice of the Annual General Meeting

## No: 4084003

## British Smaller Technology Companies VCT 2 plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 22 May 2007 at 11.30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions, which shall be proposed as Ordinary Resolutions:

### As Ordinary Business

## Ordinary Resolutions

1. That the Annual Report and Accounts for the year ended 31 December 2006 be received.

2. That a final dividend for the year to 31 December 2006 of 2.0p per share be approved.

3. That the Directors' Remuneration Report be approved.

4. That Mr R M Pettigrew who retires by rotation be re-elected as a Director.

5. That Mr P S Cammerman who retires by rotation be re-elected as a Director.

6. That PKF (UK) LLP be re-appointed as independent auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers LLP) to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and special notice having been received of this invitation to propose the resolution and that the directors be authorised to fix their remuneration.

**BY ORDER OF THE BOARD**

**J E P Gervasio**
**Secretary**
**16 April 2007**

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

Notes:

(1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD not later than 48 hours before the time of appointment for holding the Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he so wishes.

(3) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those members entered on the Company's register of members not later than 11.30 am on 20 May 2007, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

(4) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he wishes to do so.

(5) Biographical details concerning the two Directors retiring by rotation and offering themselves for re-election can be found at page 14 of the Annual Report.

# British Smaller Technology Companies VCT 2 plc
# Form of Proxy

To be used at the Annual General Meeting of the Company

to be held at 23 Berkeley Square, Mayfair, London, W1J 6HE on 22 May 2007 at 11.30 am

I/We ................................................................................ being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note (a)) ..............................................................................................................................................................of ...........................................................................................................................as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 22 May 2007 at 11.30 am and at any adjournment thereof.

My/our proxy is to vote as indicated below.

| ORDINARY RESOLUTIONS | | FOR | AGAINST | WITHHELD |
|---|---|---|---|---|
| 1. | To receive the Annual Report and Accounts | ☐ | ☐ | ☐ |
| 2. | To approve the final dividend of 2.0p per share | ☐ | ☐ | ☐ |
| 3. | To approve the Directors' Remuneration Report | ☐ | ☐ | ☐ |
| 4. | To re-elect as a Director Mr R M Pettigrew | ☐ | ☐ | ☐ |
| 5. | To re-elect as a Director Mr P S Cammerman | ☐ | ☐ | ☐ |
| 6. | To re-appoint PKF (UK) LLP as auditors | ☐ | ☐ | ☐ |

Signature ........................................................................................................... Dated ............................. 2007

**NOTES**

(a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or." A proxy need not be a Member of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.

(b) Please indicate by inserting "x" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.

(c) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing.

(d) To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notarially certified, or office copy of such power or authority, must be deposited at the office of the Company's Registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester, OX26 4LD not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.

(e) The resolutions are set out in full in the Notice of Annual General Meeting.

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**CAPITA REGISTRARS**
**PROCESSING CENTRE**
**TELFORD ROAD**
**BICESTER**
**OX26 4LD**

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# Advisers to the Company

**Investment Adviser and Custodian**
**YFM Private Equity Limited**
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

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

**Solicitors**
**Keeble Hawson**
Protection House
16-17 East Parade
Leeds LS1 2BR

**Stockbrokers**
**Teather & Greenwood Limited**
Beaufort House
15 St Botolph Street
London EC3A 7QR

**Quoted Investments Adviser**
**Brewin Dolphin Securities Limited**
34 Lisbon Street
Leeds LS1 4LX

**Independent Auditors**
**PKF (UK) LLP**
Farringdon Place
20 Farringdon Road
London EC1M 3AP

**VCT Status Adviser**
**PricewaterhouseCoopers LLP**
1 Embankment Place
London WC2N 6RH

**Bankers**
**The Royal Bank of Scotland plc**
27 Park Row
Leeds LS1 5QB

BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT 2 plc

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