Annual Report
for the year ended
31 December 2007



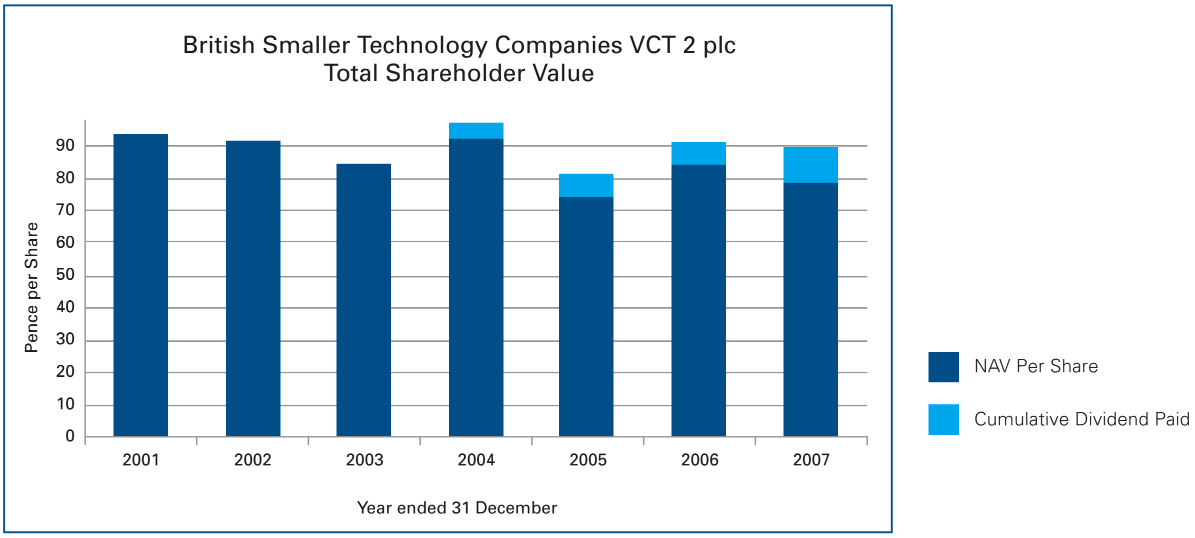

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 plc

Contents

Financial Summary

	2007	2006
(Loss) profit for the year	**(£203,000)**	£1,515,000
Dividend per share paid and proposed	**3.0p**	2.0p
Net asset value	**£13,151,000**	£13,936,000
Net asset value per share	**79.0p**	83.7p
Total return per share	**89.5p**	90.7p

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	1 April 2008	Ex-dividend Date	9 April 2008
Record Date	11 April 2008	Annual General Meeting	13 May 2008

Chairman's Statement

In my first Chairman's Statement I am pleased to report a continuation of the successful realisations of previous years and an increase in dividends over the previous year. The total return for the Company has however decreased from 90.7 pence per share to 89.5 pence per share following some reductions in the value of existing investments.

Investment Portfolio

During the year the Company realised its remaining holding in Cozart plc generating proceeds of £2.91 million. Cozart plc, a medical diagnostics company specialising in testing devises for drugs of abuse, became an investment in 2004 on its admission to the Alternative Investment Market (AIM). The total proceeds received on our investment in Cozart amounted to £3.17 million (including the proceeds of £2.91 million) compared with an original cost of £0.9 million generating a total return of 3.5 times.

This year has also seen the receipt of the remaining deferred consideration in respect of the realisation of the investment in Voxar Limited amounting £0.05 million.

It is pleasing to note that following the sale of Tamesis Limited to Patsystems plc in 2005 Tamesis Limited has achieved its earn-out conditions and that consequently the Company has received shares in Patsystems plc to the value of £0.29 million. A further 96,084 shares with a value of £0.03 million were issued in final settlement of the earn-out in February 2008.

A total of £2.56 million has been invested during the year, which comprised £1.54 million of new investments and £1.02 million of follow-on investments.

The follow-on investments included £0.65 million into Digital Healthcare Limited to support the marketing roll-out in the USA, £0.25 million into Immunobiology Limited and £0.1 million into Silistix Limited, both in support of further product development and £0.02 million into Tissuemed Limited for marketing activities.

The new investments during the year comprised unquoted investments of £0.39 million into London-based Harvey Jones Limited, a kitchen manufacturer and retailer; £0.35 million into Goole-based RMS Group Holdings Limited, a port operator and stevedoring business; £0.25 million into Ellfin Home Care Limited, a domiciliary care business and £0.25 million into Cater Plus Limited, a Watford-based contract caterer for the care home sector. In addition, £0.3 million has been invested into specialist engineering business Pressure Technologies plc on its admission to AIM. The nature of these investments reflects the Company's continued approach to broadening its investment strategy to encompass later stage, more mature investments that are capable of producing more certain income and capital growth.

Further information about these new investments can be found in the Fund Manager's Review. This contains a summary of all businesses in the current portfolio and a note of their website addresses to enable shareholders to get further information if they wish to do so.

Financial Results and Dividend

The result for the financial year ended 31 December 2007 was a loss of £0.2 million, equivalent to 1.22 pence per share. The prior year comparison was a profit of £1.52 million (9.0 pence per share). The operating loss has decreased 26.7% year on year, with increased income being partially offset by the increase in Fund Manager's fees resulting from the higher average net asset value throughout the year. The performance of the Company continues to benefit from the reduced cost base following the acquisition of British Smaller Technology Companies VCT plc in December 2005. Shareholders have begun to see the benefit of these economies through improved dividend distributions.

In 2007 dividends of 3.5 pence per share were paid including a special interim dividend of 1.5 pence per share which was declared following the successful realisation of Cozart plc. The board is now proposing a final dividend of 1.5 pence per share. If approved, this dividend will be paid on 16 May 2008 to shareholders on the register at 11 April 2008. The final dividend has not been recognised in the accounts under International Financial Reporting Standards as the contractual obligation did not exist at the balance sheet date.

The net asset value as at 31 December 2007 was 79.0 pence per share, a decrease of 0.7 pence per share on the 79.7 pence per share reported at 30 June 2007. The 4.7 pence decrease from the net asset value at 31 December 2006 of 83.7 pence per share is in large part attributed to the payment of dividends amounting to 3.5 pence per share.

Cash and cash equivalents at the end of the year amounted to £4.3 million, representing 33% of net asset value. The board considers this sufficient to take advantage of selective new investment opportunities and support the current portfolio with a view to maximising value. Further realisations will enhance cash reserves and enable further distributions to shareholders in the form of tax free dividends.

Shareholder Relations

The board continues to run shareholder workshops where investors are invited to meet members of the board, representatives from YFM Private Equity Limited, the Company's Fund Manager and the CEOs of one or more of the portfolio investments. The workshops held during 2007 were well attended, as was the latest event held in February 2008. The board remains committed to these events.

Following the withdrawal of the share buy back policy in 2006, the share price has remained at a discount to net asset value of approximately 45%, reflecting the long term nature of VCT shares and a relatively illiquid secondary market. The board will keep under review the policy regarding share buybacks, but for the time being it believes utilising cash to support the existing portfolio with a view to increasing value, making selective new investments under the revised investment strategy, which has continued to show evidence of success, and returning value to shareholders in the form of tax free dividends is the appropriate way forward.

The Annual General Meeting of the Company will be held at 12.30 pm on 13 May 2008 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 44.

The Board

In December 2007 the Company announced that with effect from 31 December 2007, Sir Andrew Hugh Smith was to retire as Chairman and non-executive director of the Company.

The board would like to thank Sir Andrew for his considerable contribution throughout his time as Chairman and wishes him well for the future.

Outlook

The changes relating to VCTs announced in the Budget earlier this year, particularly the reduction in the number of employees to 50, being part of the test for a qualifying company, will have some impact on the VCT industry but, with the board and its Fund Manager already focussing primarily on this market, the changes are expected to have less of an impact on the Company than some others.

The outlook for the next financial year should see further investment activity, a proportion of which is likely to result from further funding requirements of the companies in the portfolio as well as new investments. Continued interest in a number of portfolio companies is encouraging, indicating the possibility of other realisations during 2008.

The board remains focussed on continuing to actively support the investments in the portfolio, maximising and realising value wherever possible and is optimistic about the growth prospects over the medium to long term.

Richard Last
Chairman
8 April 2008

Fund Manager's Review

Portfolio valuation at 31 December 2007 and full history of realisations up to 31 December 2007

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost** £000	Realised Proceeds to Date £000	Investment Valuation at 31 December 2007 £000	Realised and Unrealised to Date £000
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	–	2,983
Vibration Technology Ltd	Mar-02	Glasgow	Industrial	1,061	2,328	–	2,328
Digital Healthcare Ltd	Jun-05	Cambridge	Healthcare	2,563	–	1,922	1,922
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	–	1,875
Sarian Systems Ltd	Dec-05	Ilkley	Telecoms	928	–	1,305	1,305
Immunobiology Ltd	Jun-03	Cambridge	Healthcare	850	–	850	850
Primal Pictures Ltd	Dec-05	London	Healthcare	961	–	698	698
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	–	552	552
Silistix Ltd	Dec-03	Manchester	Software	564	–	423	423
Pressure Technologies plc	Jun-07	Sheffield	Industrial	300	–	390	390
Harvey Jones Ltd	May-07	London	Manufacture	389	–	389	389
RMS Ltd	Jul-07	Goole	Industrial	350	–	350	350
Tamesis Ltd	Jul-01	London	Software	150	291	–	291
Patsystems plc	Sept-07	London	Software	291	–	280	280
Oxonica plc	May-02	Oxford	Chemical	241	255	20	275
Caterplus Services Ltd	Feb-07	Watford	Healthcare	250	–	250	250
Ellfin Home Care Ltd	Dec-07	Oldham	Healthcare	250	–	250	250
Tissuemed Ltd	Dec-05	Leeds	Healthcare	48	–	240	240
Optos plc	Dec-05	Dunfermline	Healthcare	153	93	136	229
Tekton Group Ltd	Dec-05	Manchester	Software	100	220	–	220
Allergy Therapeutics plc	Oct-04	Worthing	Healthcare	350	–	177	177
DxS Ltd	Apr-04	Manchester	Healthcare	163	–	163	163
Voxar Ltd	Dec-05	Edinburgh	Software	–	134	–	134
Arakis Ltd	Mar-04	Essex	Healthcare	14	108	–	108
Cambridge Cognition Ltd	May-02	Cambridge	Software	240	–	96	96
SoseiCo Ltd	Aug-05	Toyko, Japan	Healthcare	158	94	–	94
Brulines plc	Oct-06	Stockton-on-Tees	Software	81	–	94	94
Solcom Ltd	Dec 05	Ryde	Software	–	–	72	72
Hallco 1389 Ltd	Dec-06	Manchester	Software	49	–	49	49
Hallco 1390 Ltd	Dec-06	Manchester	Software	1	–	37	37
Broadreach Networks Ltd*	Feb-03	London	Telecoms	550	17	–	17
Sirus Pharmaceuticals Ltd	Sep-01	Cambridge	Healthcare	270	14	–	14
Focus Solutions Group plc	Dec-05	Leamington Spa	Software	7	7	–	7
Comvurgent Ltd*	Dec-05	Nottingham	Software	611	–	–	–
ExpressOn Biosystems Ltd*	Oct-02	Midlothian	Healthcare	450	–	–	–
Purely Proteins Ltd	Nov-03	Cambridge	Software	438	–	–	–
Infinite Data Storage Ltd*	Mar-02	Dunfermline	Software	425	–	–	–
Oxis Energy Ltd*	Dec-05	Abingdon	Electronics	5	–	–	–
Casmir Ltd	Dec-05	Salford	Software	–	–	–	–
Elam-T Ltd*	Dec-05	London	Electronics	–	–	–	–
LANergy Ltd*	Dec-05	Newport	Telecoms	–	–	–	–
Patterning Technologies Ltd	Dec-05	Hemel Hempstead	Electronics	–	–	–	–
Sigtronics Ltd*	Dec-05	Livingston	Electronics	–	–	–	–
Weston Antennas Ltd*	Dec-05	Dorchester	Telecoms	–	–	–	–
Total realised and unrealised to date				**15,517**	**8,419**	**8,743**	**17,162**

* 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 2007

This section describes the business of the active companies in the portfolio, in order of valuation at 31 December 2007 as detailed on page 5. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed:

Digital Healthcare Limited

Cambridge
www.digital-healthcare.co.uk

Cost	£2,562,537
Valuation	£1,921,903
Dates of investment	June & December 2005, July 2007
Equity held	27.56%
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. In July 2007, it raised a further £2 million from a range of investors to fund the growth of its new US diabetic retinopathy screening service since which time it has continued to develop sales in the US.

Sarian Systems Limited

Ilkley
www.sarian.co.uk

Cost	£928,435
Valuation	£1,305,000
Date of investment	December 2005
Equity held	17.60%
Valuation basis	Earning multiple

Year ended 30 June	**2007 £million**	2006 £million
Sales	**5.26**	3.86
Profit before tax	**0.58**	0.39
Retained profit	**0.47**	0.24
Net assets	**1.95**	1.48

Sarian Systems' primary business is in the design, development and manufacturing of advanced data communications and IP routing equipment for mission critical applications. They have a network of direct and indirect customers, distributors and partners in over 40 countries. Continued impressive growth has seen their inclusion in the 2007 Real Business/O2's 'Fifty to watch in Mobile'.

Immunobiology Limited

Cambridge
www.immbio.com

Cost	£850,000
Valuation	£850,000
Dates of investment	June & December 2003, November & December 2005, August 2007
Equity held	11.1%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 May	**2006 £million**	2005 £million
Sales	**0.03**	Nil
Loss before tax	**(0.49)**	(0.40)
Retained loss	**(0.39)**	(0.34)
Net assets	**1.12**	0.19

Immunobiology is developing high efficacy vaccines for infectious diseases. Your Company joined a syndicate raising £2.7 million in November 2005 to finance the ongoing vaccine development work. The second tranche of this investment of a further £2.7 million was drawn down in August 2007 as the company had achieved its agreed development milestones, leaving it well funded for the next phase of its development.

Primal Pictures Limited

London
www.primalpictures.com

Cost	£961,422
Valuation	£698,356
Date of investment	December 2005
Equity held	16.64%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 December	**2006 £million**	2005 £million
Sales	**2.02**	1.93
Loss before tax	**(0.25)**	(0.50)
Retained loss	**(0.17)**	(0.38)
Net liabilities	**(1.94)**	(1.84)

Primal pictures has developed a complete range of high quality anatomical CD-ROM's aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. The company continues to successfully develop its licensed customer base with an increasing percentage of its sales being underpinned by these contracts.

The ART Technology Group Inc.

Cambridge, USA
www.atg.com

Cost	£275,000
Valuation	£552,054
Date of investment	April 2003
Equity held	0.20%
Valuation basis	Quoted bid price

Year ended 31 December	**2006**	2005
	$million	$million
Sales	**103.23**	90.65
Profit before tax	**7.08**	5.80
Retained profit	**9.70**	5.77
Net assets	**105.07**	50.16

The investment in the Art Technology Group Inc arose from an original investment in Belfast based Amacis Limited. The Amacis technology enables multi-language automated handling of text, e-mail and SMS messages. The company has continued to increase revenues, with the preliminary results to 31 December 2007 showing sales of $133 million although the company has signalled a reduction in profits. Turnover is anticipated to grow between 15%-20% in 2008.

Silistix Limited

Manchester
www.silistix.com

Cost	£563,638
Valuation	£422,727
Dates of investment	December 2003, October 2004, December 2005, July 2006 & January 2007
Equity held	8.91%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 October	**2006**	2005
	£million	£million
Sales	**Nil**	Nil
Loss before tax	**(1.96)**	(1.26)
Retained loss	**(1.78)**	(1.14)
Net assets	**1.44**	0.26

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. Over 2006/2007 it has raised £3 million to finalise its asynchronous chip designs and begin to build a sales pipeline.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost	£300,000
Valuation	£390,000
Date of investment	June 2007
Equity held	1.76%
Valuation basis	Quoted bid price

Year ended 30 September	**2007**	2006
		Restated
	£million	£million
Sales	**15.12**	8.17
Profit before tax	**1.41**	0.84
Retained profit	**0.96**	0.57
Net assets	**7.87**	0.90

Pressure Technologies is a newly formed company, which acts as a holding company for Chesterfield Special Cylinders Limited who design, manufacture and offer testing and refurbishment services for a range of specialty high pressure, seamless steel gas cylinders for global energy and defence markets. It is the dominant supplier of these products to manufacturers of offshore floating drilling rigs, used in deepwater oil and gas exploration. The company's first set of preliminary results exceeded expectations with strong positive comments about its outlook with an order book in excess of £18 million.

Harvey Jones Limited

London
www.harveyjones.com

Cost	£388,571
Valuation	£388,571
Date of investment	May 2007
Equity held	3.44%
Valuation basis	Price of recent investment

Year ended 31 December	**2006**	2005
	£million	£million
Net assets	**0.10**	0.52

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

Harvey Jones is a manufacturer / retailer of kitchen furniture. It has a manufacturing facility in the UK and 13 stores mostly in London and wealthy provincial towns. It plans to roll out the number of stores organically and build brand recognition over a 3 to 5 year period.

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost	£350,000
Valuation	£350,000
Date of investment	July 2007
Equity held	3.43%
Valuation basis	Price of recent investment

Year ended 31 December	**2006 £million**	2005 £million
Sales	**27.39**	21.63
Profit before tax	**0.16**	0.66
Retained (loss) profit	**(0.15)**	0.38
Net assets	**2.72**	2.87

RMS Group is a provider of stevedoring and logistics services and operates from five sites on the Humber Estuary. It plans to enhance its currently profitable operations.

Patsystems plc

London
www.patsystems.com

Cost	£290,732
Valuation	£279,964
Date of investment	September 2007
Equity held	0.61%
Valuation basis	Quoted bid price

Year ended 31 December	**2007 £million**	2006 £million
Sales	**16.96**	15.26
Profit before tax	**2.19**	1.63
Retained profit	**1.84**	7.91
Net assets	**18.69**	13.73

The holding in Patsystems has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis in August 2005. Patsystems develops trading and risk management systems for derivatives traders and is seeing good demand for the Tamesis product, which is the only real-time risk management system available currently.

Oxonica plc

Oxford
www.oxonica.com

Cost	£62,107
Valuation	£19,654
Dates of investment	May & December 2002, January 2005 & August 2005
Equity held	0.25%
Valuation basis	Quoted bid price

Year ended 31 December	**2006 £million**	2005 £million
Sales	**10.23**	1.25
Loss before tax	**(3.13)**	(4.33)
Retained loss	**(3.02)**	(4.42)
Net assets	**18.05**	6.00

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 £35.3 million. In February 2006, a further £12.6 million in shares was issued to finance the acquisition of Nanoplex. 2007 was a difficult year following the loss of a significant contract in Turkey. This is reflected in the preliminary results to 31 December 2007, with turnover reduced to £4.2 million and increased losses of £5.5 million. The group successfully raised £4.8 million shortly before the year end.

Caterplus Services Limited

Watford
www.caterplus.co.uk

Cost	£250,000
Valuation	£250,000
Date of investment	February 2007
Equity held	6.67%
Valuation basis	Price of recent investment

9 months ended 31 March	**2007 £million**
Sales	**1.92**
Profit before tax	**0.06**
Retained profit	**0.02**
Net assets	**0.39**

Caterplus is a contract caterer specialising in the care home sector. The sector is dominated by two large multinationals but is otherwise fragmented. The company is looking to create value through organic and acquisitional growth.

Ellfin Home Care Limited

Oldham

Cost	£250,000
Valuation	£250,000
Date of investment	December 2007
Equity held	3.97%
Valuation basis	Price of recent investment

There are currently no audited financial statements available for Ellfin Home Care.

Ellfin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The company was established as a vehicle to acquire a number of home care businesses forming a North West Group over a 5 year period. To date one acquisition has been completed. Further funding is anticipated to be required to fulfil the growth strategy.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost	£47,539
Valuation	£239,601
Dates of investment	December 2005 & March 2007
Equity held	0.27%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 March	**2007**	2006
	£million	£million
Sales	**Nil**	Nil
Loss before tax	**(1.18)**	(1.00)
Retained loss	**(1.04)**	(0.87)
Net assets	**1.13**	1.08

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. Following the award of a CE mark, in October 2007 it raised £2.0 million to provide working capital for subsequent market promotions.

Optos plc

Dunfermline
www.optos.com

Cost	£114,809
Valuation	£136,478
Dates of investment	December 2005 & February 2007
Equity held	0.17%
Valuation basis	Quoted bid price

Year ended 30 September	**2007**	2006
	$million	$million
Sales	**86.83**	67.72
Profit (loss) before tax	**1.62**	(1.10)
Retained (loss) profit	**(0.23)**	10.81
Net assets	**57.63**	51.34

Optos has developed scanning laser opthalmoscope technology that greatly assists optomestrists being able to produce a high resolution scan of 80% of the retina in only a quarter of a second. Following its listing in February 2006 Optos has continued to expand its market share, with 2007 seeing the company achieve its first pre-tax profit, generating $6.5 million of operating profit. The company continues to forecast 20%-25% growth.

Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost	£350,254
Valuation	£177,471
Dates of investment	October 2004, April 2005 & February 2007
Equity held	0.59%
Valuation basis	Quoted bid price

Year ended 30 June	**2007**	2006 (restated)
	£million	£million
Sales	**25.74**	23.56
Loss before tax	**(26.32)**	(6.17)
Retained loss	**(23.82)**	(6.17)
Net assets	**8.32**	32.70

Allergy Therapeutics specialises in the treatment and prevention of allergies. After a difficult 2007 financial year the company has reported improving preliminary results for the six months to 31 December 2007, with gross sales increasing to £21.6 million and the retained loss for the six months falling to £4.4 million (six months to 31 December 2006: £7.9 million). The share price has underperformed as a result of delays in FDA approval of its products.

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

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)

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, from a range of investors, to finance its genotyping services and has subsequently begun to increase its sales and licensing pipeline.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost	£240,000
Valuation	£95,979
Date of investment	May 2002
Equity held	3.36%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 December	**2006** **£million**	2005 £million
Sales	**1.12**	1.78
Loss before tax	**(1.22)**	(0.54)
Retained loss	**(1.21)**	(0.55)
Net assets (liabilities)	**1.58**	(1.21)

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 £1.5 million in January 2008, from a range of investors, to assist with commercialising its intellectual property.

Brulines plc

Stockton-on-Tees
www.brulines.com

Cost	£81,180
Valuation	£94,380
Date of investment	October 2006
Equity held	0.28%
Valuation basis	Quoted bid price

Year ended 31 March	**2007** **£million**	2006 £million
Sales	**16.76**	11.08
Profit before tax	**1.91**	1.63
Retained profit	**1.00**	1.00
Net assets	**11.25**	2.73

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. Following its listing in 2006 the company has posted results in line or better than expectations. It has recently completed the acquisition of two businesses. Preliminary results for the six months to 30 September 2007 delivered a 28% increase in operating profit to £2.06 million.

Solcom Limited

Ryde
www.solcom.com

Cost	£nil
Valuation	£71,989
Date of investment	December 2005
Equity held	12.46%
Valuation basis	Earnings multiple

Year ended 30 June	**2007** **£million**	2006 £million
Sales	**0.52**	0.37
Profit before tax	**0.11**	0.07
Retained profit	**0.11**	0.07
Net assets	**0.17**	0.06

Solcom provides consulting services for real-time data acquisition and software for radio-isotope handling systems.

Hallco 1389 (formerly Tekton Group) Limited

Manchester
www.intuita.co.uk

Cost	£48,975
Valuation	£48,975
Date of investment	December 2006
Equity held	0.00%
Valuation basis	Price of recent investment, reviewed for impairment

8 months ended 30 June	2007 £million
Sales	**Nil**
Profit before tax	**0.59**
Retained profit	**0.59**
Net assets	**0.59**

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.

Hallco 1390 (formerly Tekton Group) Limited

Manchester
www.intuita.co.uk

Cost	£1,032
Valuation	£36,702
Date of investment	December 2006
Equity held	1.03%
Valuation basis	Earnings multiple

8 months ended 30 June	2007 £million
Sales	**5.95**
Profit before tax	**0.80**
Retained profit	**0.62**
Net assets	**0.71**

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.

Comvurgent Limited

Nottingham
www.comvurgent.com

Cost	£611,392
Valuation	£nil
Date of investment	December 2005
Equity held	13.59%
Valuation basis	Full impairment

Year ended 31 December	2005 £million	2004 £million
Net liabilities	**(1.23)**	(1.14)

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

Comvurgent has developed a range of Voice Over Internet Protocol (VOIP) products and recording devices for the telecommunications market. The investment has been impaired due to the company's shortage of liquid resources. The company was placed into administration on 26 March 2008.

Purely Proteins Limited

Cambridge
www.purelyproteins.com

Cost	£437,500
Valuation	£nil
Dates of investment	November 2003, September 2004 & November 2005
Equity held	14.28%
Valuation basis	Full impairment

Year ended 30 September	2006 £million	2005 £million
Sales	**0.80**	0.20
Loss before tax	**(0.24)**	(1.01)
Retained loss	**(0.23)**	(0.96)
Net liabilities	**(0.27)**	(0.05)

Purely Proteins develops technology for the manufacture and isolation of complex proteins of interest to the pharmaceutical industry for drug discovery programmes or use as therapeutic agents. The business is currently inactive. It is currently seeking buyers for its intellectual property portfolio.

Infinite Data Storage Limited

Dunfermline
www.infinitedatastorage.com

Cost	£425,013
Valuation	£nil
Dates of investment	March 2002, November 2002, June 2004, October 2004 & December 2005
Equity held	3.08%
Valuation basis	Full impairment

Year ended 31 December	2006 £million	2005 £million
Sales	**0.95**	2.44
Loss before tax	**(1.06)**	(1.70)
Retained loss	**(1.01)**	(1.53)
Net liabilities	**(1.59)**	(0.59)

Infinite Data Storage is a developer in personal data storage technologies. When its key customer failed to renew orders in December 2007 the company was placed into liquidation.

Oxis Energy Limited

Abingdon
www.oxisenergy.com

Cost	£5,000
Valuation	£nil
Date of investment	December 2005
Equity held	0.30%
Valuation basis	Full impairment

Year ended 30 June	2006 £million	2005 £million
Sales	**Nil**	Nil
Loss before tax	**(0.44)**	(0.25)
Retained profit	**0.41**	0.22
Net assets	**1.03**	0.09

Oxis uses a pioneering novel Lithium-Sulphide electrochemistry to produce a superior performance to-weight rechargeable battery. It raised additional finance in January 2006 and is currently approaching the market for further funding to support its development programme.

Casmir Limited

Salford

Cost	£nil
Valuation	£nil
Date of investment	December 2005
Equity held	21.87%
Valuation basis	Full impairment

Year ended 30 June	2006 £million	2005 £million
Net assets	**0.02**	0.02

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

Casmir is a developer of knowledge management software. It remains solvent but dormant, the IP being managed by a third party. The company has effectively ceased trading.

Patterning Technologies Limited

Watford
www.pattech.com

Cost	£nil
Valuation	£nil
Date of investment	December 2005
Equity held	0.8%
Valuation basis	Full impairment

Year ended 31 March	2007 £million	2006 £million
Sales	**0.27**	0.15
Loss before tax	**(0.27)**	(0.48)
Retained loss	**(0.22)**	(0.40)
Net (liabilities) assets	**(0.03)**	0.02

Patterning Technologies uses inkjet printing technology to create patterned images for industrial processes that reduce manufacturing costs and revolutionise production methods.

Fund Manager's Review

Introduction

This year has seen further realisations and it is pleasing to note that these have all been at values in excess of the carrying value.

A number of the portfolio companies have continued to make progress and as a result have attracted further funding both from British Smaller Technology Companies VCT 2 plc as well as other investors. In particular Digital Healthcare, Immunobiology and Silistix have all received further funding in the year.

The nature of these funding rounds has been such that where the newer investment benefits from preferential rights, then at the point of investment there can be a dilutive effect on the carrying valuation. This has been the case in each of these investments, with a consequence that there has been a reduction in carrying values.

Cash and cash equivalents at 31 December 2007 were £4.33 million which compares to £4.98 million at 31 December 2006. The successful realisations from the portfolio have enabled payment of dividends of £0.58 million and £2.85 million of investment whilst leaving the Company in a strong cash position enabling further investment and dividends in 2008.

Portfolio Overview

Progress in 2007

During the year, investments were made in ten companies, five being new investments, four follow-on investments and one an issue of shares in lieu of an earn-out payment in respect of the disposal of Tamesis Limited.

	£000
New Investments	
Harvey Jones Limited	389
RMS Group Holdings Limited	350
Pressure Technologies plc	300
Caterplus Services Limited	250
Ellfin Home Care Limited	250
	1,539
Follow-on Investments	
Digital Healthcare Limited	650
Immunobiology Limited	250
Silistix Limited	100
Tissuemed Limited	22
	1,022
In lieu of earn-out	
Patsystems plc	291
Total	**2,852**

The Company's investment policy is to build a diversified portfolio of investments in emerging businesses with a recent emphasis on ensuring that this captures later stage businesses that have the potential to deliver both income and capital growth.

This is particularly reflected in the new investments which have been made into later stage businesses generating profits. These investments have been structured with a significant element of loan stock which is intended to generate a yield.

The follow-on investments have been into the earlier stage investments where capital growth is the principal focus. In these cases the investments are generally in the form of ordinary shares.

The largest follow-on investment was into Digital Healthcare in support of its US expansion. This investment was made in anticipation of a further round of financing in 2008.

Realisations

In October 2007, the Company sold its entire holding in Cozart plc following its acquisition by AIM-listed Concateno plc. The disposal realised £2.91 million.

In September 2007 the Company realised £0.29 million as a result of an earn-out from the disposal of Tamesis Limited. This earn-out was satisfied by the issue of shares in Patsystems plc, the company that acquired Tamesis. Subsequent to the year end a further issue of shares valued at £0.03 million have been received in final settlement.

Performance History

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

Conclusion and Outlook

The year under review has been one of relative high levels of activity with further divestments and a number of new investments. The portfolio spread has been further widened as part of the ongoing strategy to mitigate risk. The policy of investing in later stage technology related and source yield businesses continues to be implemented in order to provide an income stream from which costs and fees can be met. The Company's cash reserves are good and dividend levels have been increased year on year. There remains a good level of interest in the investment portfolio which bodes well for a continuation of the realisation pattern seen in the last two years.

David Hall
YFM Private Equity Limited
8 April 2008

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 International Private Equity and Venture Capital (IPEVC) Valuation Guidelines identify six of the most widely used valuation methodologies for unquoted investments. 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.

Unquoted investments held in the form of loan investments are valued at fair value using the appropriate methodologies as used for valuing equity investments, primarily being price of recent investment and discounted cash flows from the investment.

Quoted Investments

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

Directors

Richard Last – Chairman (50) Appointed 1 January 2008

Qualified as a chartered accountant with PricewaterhouseCoopers LLP. He is also chairman of Xpertise Group plc, an AIM-quoted IT training group, and Knowledge Technology Solutions plc, an AIM listed IT software company. He is a non-executive director of Patsystems plc and Financial Payment Systems Limited, both AIM quoted software companies, Lighthouse plc, an AIM quoted provider of financial services, and British Smaller Companies VCT plc. He has been a director of the Company since its establishment as a venture capital trust.

Sir Andrew Colin Hugh Smith – Chairman (76) Resigned 31 December 2007

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 (65)

Has over 20 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 23 years in the venture capital industry and was chairman of YFM Private Equity Limited and a director of YFM Group Limited until 3 April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including hi-tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Companies VCT plc. He has been a director of the Company since its establishment as a venture capital trust.

Stephen John Noar (60)

A dentist by profession, he 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 £70 million. 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. He has been a director of the Company since its establishment as a venture capital trust.

Robert Martin Pettigrew (63)

Has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is an investor-director on the board of a number of technology companies, including Sphere Medical Limited, Timberpost Limited, Digital Healthcare Limited and Acal Energy Limited (of which he is chairman). He is also a non-executive director of British Smaller Companies VCT plc. He has been a director of the Company since its establishment as a venture capital trust.

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 2007

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the year ended 31 December 2007.

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 Chapter 3 of Part 6 of the Income Tax Act 2007. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 of Part 6 of the Income Tax Act 2007.

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 specifically in the paragraphs headed Investment Portfolio, Financial Results and Dividend and Outlook and in the Fund Manager's Review on page 13. The Company, in common with the venture capital trust industry, did not have any employees apart from the five directors who served during the year. The business and administrative duties of the Company are contracted to the Fund Manager, 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 under performance and poor returns to shareholders.

Loss of approval as a Venture Capital Trust – The Company must comply with Chapter 3 of Part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. 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 Fund Manager's and administrator'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 policy, 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 applies rigorously the principles detailed in the "Turnbull" guidance. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 21.

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 the Company is included within the Financial Summary 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 and is the comparator on which the Fund Manager's incentive scheme is based. 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 Chapter 3 of Part 6 of the Income Tax Act 2007, 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 following the initial three year provisional period.

Income Test
The Company's income in the period must be derived wholly or mainly from shares or securities.

Retained Income Test
The Company must not retain more than 15% of its income from shares and securities.

Qualifying Holdings Test
At least 70% by value of the Company's investments must be represented throughout the period by shares or securities comprised in qualifying holdings of the Company.

Eligible Shares Test
At least 30% of the Company's qualifying holdings must be represented throughout the period by holdings of non-preferential ordinary shares.

Maximum Single Investment Test
The value of any one investment has, at any time in the period, not represented more than 15% of the Company's total investment value. This is calculated at the time of original investment and of further additions and therefore cannot be breached passively.

The Board receives regular reports on compliance with the VCT legislative tests from YFM Private Equity. In addition, the Board receives formal reports from its VCT Status Adviser, PricewaterhouseCoopers LLP, twice a year.

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 loss on ordinary activities after taxation for the year amounted to £203,000 (2006 profit: £1,515,000).

The directors recommend the payment of a final dividend of 1.5p (2006: 2.0p).

The net asset value per Ordinary share at 31 December 2007 was 79.0p (2006: 83.7p). The transfer to and from reserves is given in the Statement of Changes in Shareholders Equity on page 28.

Purchase of Own Shares

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 36 (2006: 16).

Directors and their Interests

The directors of the Company at 31 December 2007, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 23 and 24.

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 44 of these financial statements.

Independent Auditors

The auditors, PKF (UK) LLP, have indicated their willingness to continue in office. A resolution to reappoint them 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 Fund Manager to ensure legislative requirements are properly assessed.

Events after the Balance Sheet Date

Since the year end, the Company has invested £167,615 in Silistix Limited. There have been no other significant events, including venture capital investments made, following the year end.

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;
- 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 safe-guarding 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 Fund Manager. 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 statement 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 Combined Code on Corporate Governance, June 2006 (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, 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 Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning his independence (see page 19).

Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Fund Manager 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 four non-executive directors, three of whom are regarded by the Board as independent and, also as independent of the Company's Fund Manager, 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 Fund Manager, are satisfied that Richard Last fulfils 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 15.

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 Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company in particular with regard to investment appraisal and investment risk management. Individual biographies are at page 15 of this Report.

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 Last and Mr S J Noar who retire by rotation at this year's AGM, because of their commitment, experience and continued contribution to the Company.

Appointment of Chairman

Sir Andrew Hugh Smith retired as Chairman and non-executive director of the Company with effect from 31 December 2007. The Board would like to thank Sir Andrew for his considerable contribution throughout his time as Chairman and wish him well for the future. Richard Last, who has been a non-executive director since the Company's establishment, was appointed Chairman with effect from 1 January 2008.

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 5 formal Board meetings, 2 Audit Committee meetings and a formal Nomination Committee meeting. The directors met via telephone conferences on 12 other occasions.

Director	**Board meetings attended**	**Audit Committee meetings attended**	**Nomination Committee meetings attended**
R Last	5	2	1
Sir A H Smith	5	2	1
P S Cammerman	5	n/a	n/a
S J Noar	3	1	1
R M Pettigrew	4	2	1

Training and Appraisal

On appointment, the Fund Manager 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 performance of Sir Andrew Hugh Smith had been effective and demonstrated a commitment to the role. The directors have confirmed that the performance of Mr Last and Mr Noar, being proposed for re-election, continues to be effective and that they continue to show commitment to the role.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 23 and 24. 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 Fund Manager, 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 Richard Last. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. Sir Andrew Hugh Smith ceases to be a member as a consequence of his retirement from the Board.

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 Fund Manager'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 consider 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.

Nomination Committee

The Company has a Nominations Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager. The Chairman of the Board acts as Chairman of the Committee save in the case of the proposal to appoint Mr Last as Chairman when the Nominations Committee was chaired by Mr Pettigrew.

In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

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 Fund Manager are available in person to meet with and answer shareholders' questions. In addition representatives of the Fund Manager periodically holds shareholder workshops which review the Company's performance and industry developments. During the year the Company's broker and the Fund Manager 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 15.

The Company's Annual Report is published in time to give shareholders at least 21 clear 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 15. 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 Fund Manager 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 Fund Manager.
- 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 Fund Manager and the Board approves annual budgets prepared by the Fund Manager.
- The Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Fund Manager 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 2007 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 on-going 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

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient cash resources to meet its obligations for the foreseeable future. The directors therefore believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Investment Policy

The investment policy of the Company is to create a portfolio that blends a mix of companies operating in more established technology industries with those that offer opportunities in the development and application of innovation.

The Company will invest in UK businesses across a range of sectors including Industrial, Healthcare, Software, Electronics and Telecommunications in VCT qualifying unquoted and AIM traded securities which under the legislation governing VCTs requires that at least 70% by value of its holdings must be in 'qualifying holdings'. The maximum by value that the Company may hold in a single investment is 15%. Although the majority of investments will be equities, in appropriate circumstances, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

Directors' Report

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose. The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £423,000. Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies is set out in the Fund Manager's Review which accompanies this Annual Report.

The Fund Manager, 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 reserves to itself the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and when the decision is required urgently in which case the Chairman may act in consultation with the Fund Manager.

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.

In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the shareholders as a whole in view of its experience in managing venture capital trusts and in making and exiting investments of the kind falling within the Company's investment policy.

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 current assets 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 18 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 14 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 2007 can be found in the Fund Manager's Review and notes 7 and 19 to these Financial Statements.

This report was approved by the Board on 8 April 2008 and signed on its behalf.

J E P Gervasio
Company Secretary

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 2007 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 2007	31 December 2006
	£	£
Sir A H Smith (resigned 31 December 2007)	**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 15. 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 Fund Manager 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 and regulated by the Financial Services Authority. Mr Cammerman was, until 3 April 2008, a director of YFM Private Equity Limited and had 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 (audited)

Total directors' remuneration for the year amounted to £67,500 (2006: £67,500) 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 (2006: £nil).

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

	2007	2006
	£	£
Sir A H Smith (resigned 31 December 2007)	**23,475**	23,475
P S Cammerman	**–**	–
R Last	**14,675**	14,675
S J Noar	**14,675**	14,675
R M Pettigrew	**14,675**	14,675

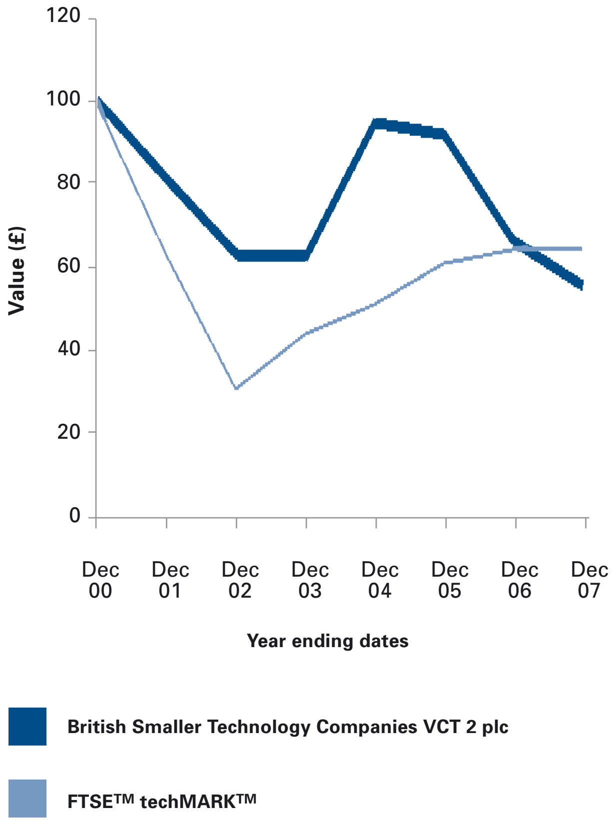
There are no executive directors (2006: Nil). Mr Cammerman, formerly a director of the Company's Fund Manager, received no fees for his services as a director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity Limited is considered to relate to his role with the Company.

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 total shareholder return compared with the companies in the FTSE™ techMARK™ All-Share Index for the period from the first allotment of shares to 31 December 2007. The graph looks at the value, by the end of 2007, 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 8 April 2008 and signed on its behalf.

Richard Last
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 2007 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 Fund Manager'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 2006 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 Fund Manager'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 2007 and of its loss 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
8 April 2008

Income Statement

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Income	2	**339**	220
Administrative expenses:	3		
Fund Management fee		**(404)**	(371)
Other expenses		**(213)**	(228)
		(617)	(599)
Operating loss		**(278)**	(379)
Gains on realisation of investments	7	**1,501**	1,421
(Losses) gains on investments held at fair value	7	**(1,426)**	473
(Loss) profit on ordinary activities before taxation		**(203)**	1,515
Taxation	4	**–**	–
(Loss) profit for the year from continuing operations		**(203)**	1,515
Basic and diluted (loss) earnings per ordinary share	6	**(1.22p)**	9.00p

The accompanying notes on pages 30 to 43 are an integral part of these financial statements.

Balance Sheet

At 31 December 2007

	Notes	2007 £000	2006 £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	**8,743**	9,008
Current assets			
Trade and other receivables	8	**228**	335
Cash and cash equivalents	9	**4,337**	4,984
		4,565	5,319
Liabilities			
Current liabilities			
Trade and other payables	10	**(157)**	(391)
Net current assets		**4,408**	4,928
Net assets		**13,151**	13,936
Shareholders' equity			
Share capital	11	**1,664**	1,664
Share premium		**69**	69
Capital redemption reserve		**88**	88
Merger reserve		**5,525**	5,525
Other reserve		**2**	2
Retained earnings		**5,803**	6,588
Total Shareholders' equity		**13,151**	13,936
Net asset value per Ordinary share	12	**79.0p**	83.7p

The accompanying notes on pages 30 to 43 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 8 April 2008

Richard Last
Chairman

Statement of Changes in Shareholders' Equity

	Share capital £000	Share premium account £000	Merger reserve £000	*Other reserves £000	Retained earnings £000	Total equity £000
Balance at 31 December 2005	1,731	69	5,525	23	5,492	12,840
Profit for the 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**
Loss for the year	–	–	–	–	(203)	(203)
Dividends	–	–	–	–	(582)	(582)
Balance at 31 December 2007	**1,664**	**69**	**5,525**	**90**	**5,803**	**13,151**

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable.

The accompanying notes on pages 30 to 43 are an integral part of these financial statements.

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.

Included within retained earnings is £1,381,000 (2006: £1,211,000) in respect of unrealised gains in respect of investments held at fair value through profit or loss. These gains are not distributable under the Companies Act 1985 and provisions of the Companies Act 2006.

Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Net cash flows from operating activities	13	**(314)**	(393)
Cash flows from investing activities			
Costs of acquisition		**–**	(172)
Acquisition net of cash acquired		**–**	(172)
Purchase of financial assets at fair value through profit or loss	7	**(2,852)**	(276)
Proceeds from sale of financial assets at fair value through profit or loss	7	**3,116**	2,875
Net cash from investing activities		**264**	2,427
Cash flows used in financing activities			
Purchase of own shares and associated warrants		**–**	(419)
Dividends paid		**(582)**	(346)
Net cash used in financing activities		**(582)**	(765)
Net (decrease) increase in cash and cash equivalents		**(632)**	1,269
Cash and cash equivalents at beginning of the year		**4,984**	3,834
Effect of market value changes in cash equivalents	7	**(15)**	(119)
Cash and cash equivalents at the end of the year	9,14	**4,337**	4,984

The accompanying notes on pages 30 to 43 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2007

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), as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements are prepared in accordance with IFRS and interpretations in force at the reporting date.

The IASB has issued a revised version of IAS 1 'Presentation of Financial Statements'. The changes made require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard will come into effect for annual periods beginning on or after 1 January 2009 and has therefore not been adopted in these financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted in these financial statements. These include amendents to IFRS 2, IFRS 3, IFRS 8, IAS 23, IAS 27 and IAS 32 and the issue of IFRICs 12 to 14. These changes are not expected to have a material impact on the financial statements.

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 14.

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, they do 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 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.

Notes to the Financial Statements

For the year ended 31 December 2007

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 Chapter 3 of Part 6 of the Income Tax Act 2007, 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. 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.

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 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

	2007 £000	2006 £000
Income from investments:		
– Dividends from unquoted companies	**57**	20
– Interest on loans to unquoted companies	**69**	11
– Fixed interest Government Securities	**184**	167
Income from investments held at fair value through profit or loss	**310**	198
Interest on bank deposits	**29**	22
	339	220

3. Administrative Expenses

	2007 £000	2006 £000
Fund management fee (including irrecoverable VAT)	**404**	371
Other expenses:		
Administration fee (including irrecoverable VAT)	**56**	51
Directors' remuneration	**68**	68
Auditors' remuneration:		
– audit fees	**16**	14
General expenses	**73**	95
	213	228

YFM Private Equity Limited provides fund management 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 at any time.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2½% 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 £460,000 (2006: £422,000).

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 23), 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.

The details of directors’ remuneration are set out in the Directors’ Remuneration Report on page 23 under the heading “Basic Remuneration”.

4. Taxation on Ordinary Activities

	2007 £000	2006 £000
Corporation tax payable at 20% (2006: 19%)	**–**	–
(Loss) profit on ordinary activities before taxation	**(203)**	1,515
(Loss) profit on ordinary activities multiplied by standard small company rate of corporation tax in UK of 20% (2006: 19%)	**(41)**	288
Effect of:		
UK dividends received	**(11)**	(4)
Non taxable profits on investments	**(15)**	(360)
Excess management expenses	**67**	76
Tax on profit on ordinary activities	**–**	–

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

Deferred tax assets of £290,000 calculated at 20% (2006: £245,000 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 Chapter 3 of Part 6 of the Income Tax Act 2007, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

5. Dividends

Amounts recognised as distributions to equity holders in the year:

	2007 £000	2006 £000
Final dividend for the year ended 31 December 2006 of 2p (2005: £nil) per share	**332**	–
Special interim dividend for the year ended 31 December 2007 of 1.5p (2006: £nil) per share	**250**	–
	582	–

The Special interim dividend of 1.5p was declared on 23 October 2007 and paid on 30 November 2007 to shareholders on the register on 2 November 2007.

A final dividend of 1.5p per Ordinary share in respect of the year to 31 December 2007, amounting to £250,000, is proposed. This dividend has not been recognised in the year ended 31 December 2007 as the obligation did not exist at the balance sheet date.

6. (Loss) Earnings per Ordinary Share

The (loss) earnings per Ordinary share is based on the loss from ordinary activities after tax of £203,000 (2006 profit: £1,515,000) and 16,641,000 (2006: 16,878,000) 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 in Note 3. 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 2007 or 31 December 2006. Consequently, basic and diluted earnings per share are the same for the years ended 31 December 2007 and 31 December 2006.

7. Financial Assets at Fair Value through Profit or Loss

All items held as fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 December 2007 are summarised as follows:

	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	6,521	1,295	2,402	**10,218**	4,543	**14,761**
Opening unrealised (loss) gain	(1,044)	(648)	482	**(1,210)**	(84)	**(1,294)**
Opening fair value at 1 January 2007	**5,477**	**647**	**2,884**	**9,008**	**4,459**	**13,467**
Additions at cost	1,239	1,022	591	**2,852**	3,768	**6,620**
Disposal proceeds	(3,202)	–	(5)	**(3,207)**	(4,102)	**(7,309)**
Net profit (loss) realised on disposal	1,532	–	5	**1,537**	(36)	**1,501**
Changes in fair value in the year	828	(450)	(1,825)	**(1,447)**	21	**(1,426)**
Closing fair value at 31 December 2007	**5,874**	**1,219**	**1,650**	**8,743**	**4,110**	**12,853**
Closing cost	7,345	1,842	1,474	**10,661**	4,117	**14,778**
Closing unrealised (loss) gain	(1,471)	(623)	176	**(1,918)**	(7)	**(1,925)**
Closing fair value at 31 December 2007	**5,874**	**1,219**	**1,650**	**8,743**	**4,110**	**12,853**

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

	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	7,625	1,261	2,372	**11,258**	2,845	**14,103**
Opening unrealised (loss) gain	(923)	(638)	(194)	**(1,755)**	31	**(1,724)**
Opening fair value at 1 January 2006	**6,702**	**623**	**2,178**	**9,503**	**2,876**	**12,379**
Flotation of unquoted companies	(152)	–	152	**–**	–	**–**
Additions at cost	161	34	81	**276**	2,866	**3,142**
Disposal proceeds	(2,597)	–	(187)	**(2,784)**	(1,164)	**(3,948)**
Net profit (loss) realised on disposal	1,411	(10)	34	**1,435**	(14)	**1,421**
Changes in fair value in the year	(48)	–	626	**578**	(105)	**473**
Closing fair value at 31 December 2006	**5,477**	**647**	**2,884**	**9,008**	**4,459**	**13,467**
Closing cost	6,521	1,295	2,402	**10,218**	4,543	**14,761**
Closing unrealised (loss) gain	(1,044)	(648)	482	**(1,210)**	(84)	**(1,294)**
Closing fair value at 31 December 2006	**5,477**	**647**	**2,884**	**9,008**	**4,459**	**13,467**

The total of fair value adjustments below cost made against unquoted investments at 31 December 2007 amounted to £1,834,000 (2006: £487,000). This includes no amounts written off such investments in 2007 or 2006.

There have been no individual write downs or provisions during the year which exceeded 5% of the total assets of the Company (2006: none).

Fixed income securities are UK Government stocks and are classified as cash equivalents due to their use as temporary holdings until venture capital investment opportunities arise.

7. Financial Assets at Fair Value through Profit or Loss (cont.)

Significant interests

At 31 March 2007 the Company held a significant holding of at least 20% of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Caterplus Services Limited	Healthcare	25,000	Ordinary	7%	27%
Digital Healthcare Limited	Healthcare	2,408,774	Ordinary	28%	–
Ellfin HomeCare Limited	Healthcare	15,916	Ordinary	4%	44%
Harvey Jones Limited	Manufacture / Distribution	350,640	Ordinary	3%	27%
Primal Pictures Limited	Medical Information	70,000	Ordinary	17%	4%
RMS Group Holdings Limited	Stevedoring / Logistics	2,202	Ordinary	3%	21%
Sarian Systems Limited	Telecommunications	503,656	Ordinary	18%	26%

Commonly managed funds refer to those funds also under the management of YFM Private Equity Limited, the Fund Manager to the Company, both on a discretionary and non-discretionary basis.

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager 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 2007 and exclude those companies in receivership or liquidation at that date.

	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	The Chandos Fund LP £000	Total £000	Total for this Company £000
Brulines plc	163						163	81
Cambridge Cognition Limited	325						325	240
Caterplus Services Limited	1,000						1,000	250
Comvurgent Limited					150		150	611
Digital Healthcare Limited					71		71	2,563
DxS Limited		163					163	163
Ellfin HomeCare Limited	650	700				1,400	2,750	250
Hallco 1389 Limited	196	98					294	47
Hallco 1390 Limited	4	2					6	3
Harvey Jones Limited	777					2,234	3,011	389
Patsystems plc	204						204	291
Pressure Technologies plc	425						425	300
Primal Pictures Limited	305				55		360	961
RMS Group Holdings Limited	900					1,250	2,150	350
Sarian Systems Limited			250	250			500	928
Silistix Limited		406					406	564
Tissuemed Limited			100				100	48

8. Trade and Other Receivables

	2007 £000	2006 £000
Amounts receivable within one year:		
Trade receivables	**305**	238
Prepayments and accrued income	**205**	191
Less: Allowances for credit losses on trade receivables	**(282)**	(230)
Other debtors	**–**	136
	228	335

	2007 £000	2006 £000
Allowances for credit losses on trade receivables:		
Allowances as at 1 January	**230**	182
Additions – charged to income statement	**52**	48
Allowances as at 31 December	**282**	230

Trade and other receivables are assessed for impairment when older than 90 days. As of 31 December 2007, trade receivables of £23,000 (2006: £nil) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2007 £000	2006 £000
1–3 months	**–**	–
3–6 months	**–**	–
More than 6 months	**23**	–

As of 31 December 2007, trade receivables of £282,000 (2006: £230,000) were impaired and provided for. The ageing of these receivables is as follows:

	2007 £000	2006 £000
3–6 months	**17**	24
6–12 months	**25**	24
More than 12 months	**240**	182

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £228,000 (2006: £335,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2007 £000	2006 £000
Cash at bank	**227**	525
Cash equivalents – fixed interest quoted investments	**4,110**	4,459
	4,337	4,984

10. Trade and Other Payables

	2007 £000	2006 £000
Amounts payable within one year:		
Accrued expenses	**157**	164
Other creditors	**–**	227
	157	391

11. Called-up Share Capital

	2007 Authorised £000	2007 Allotted, Called-up and Fully paid £000	2006 Authorised £000	2006 Allotted, Called-up and Fully paid £000
Ordinary shares of 10p				
Authorised: 50,000,000 (2006: 50,000,000)	**5,000**		5,000	
Issued: 16,641,257 (2006: 16,641,257)		**1,664**		1,664

The were no movements in share capital during the year.

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 23. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2.

12. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £13,151,000 (2006: £13,936,000) and 16,641,257 (2006: 16,641,257) 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 in Note 3. 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 2007 or 31 December 2006. Consequently, basic and diluted net asset value per Ordinary share are the same for the years ended 31 December 2007 and 31 December 2006.

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

	2007 £000	2006 £000
(Loss) profit on ordinary activities before taxation	**(203)**	1,515
Decrease in trade and other payables	**(7)**	(49)
(Increase) decrease in trade and other receivables	**(29)**	35
Gains on realisation of investments in the year	**(1,501)**	(1,421)
Losses (gains) on investments held at fair value	**1,426**	(473)
Net cash outflow from operating activities	**(314)**	(393)

Cash movements above include the following:

	2007 £000	2006 £000
Dividends received	**57**	20
Interest received		
– gilt interest	**207**	154
– deposit interest	**29**	22
Total interest	**265**	178

14. Analysis of Changes in Cash and Cash Equivalents

	1 January 2007 £000	Cash Flow £000	Other non cash changes £000	**31 December 2007 £000**
Cash	525	(298)	–	**227**
Cash equivalents – fixed interest quoted investments	4,459	(491)	142	**4,110**
	4,984	(789)	142	**4,337**

15. Financial Commitments

There was 1 investment (2006: 3) approved by the Board of Directors at 31 December 2007, which has not been reflected in these accounts amounting to £167,615 (2006: £372,000). Since the year end further investments totalling £150,000 (2006: £400,000) have been approved by the Board.

16. Related Party Transactions

Mr Cammerman, until 3 April 2008 the Chairman of YFM Private Equity Limited the Fund Manager to the Company, had no beneficial shareholding in YFM Private Equity Limited in either year.

YFM Group Limited, the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds investments in Digital Healthcare Limited and Primal Pictures Limited, investee companies of British Smaller Technology Companies VCT 2 plc. At 31 December 2007 YFM Group's investment in Digital Healthcare was valued at £37,500 (2006: £37,500) and its investment in Primal Pictures Limited was valued at £43,050 (2006: £53,750).

Mr Noar, a director of the Company, was a non-executive director of Cozart plc until 4 October 2007. The appointment was made pursuant to an agreement following the investment made in that company. During the year Mr Noar received £17,107 (2006: £27,700) from Cozart plc in respect of his services. At 31 December 2007, Mr Noar no longer held an equity stake in Cozart plc (2006: 0.4%).

Mr Pettigrew, a director of the Company, was a non-executive director of Digital Healthcare Limited until 31 December 2007 and Oxonica plc until 27 September 2007. The appointments were made pursuant to agreements following the investments made in those companies. The investment in the company was acquired from British Smaller Technology Companies VCT plc on 8 December 2005. During the year Mr Pettigrew received £12,500 (2006: £12,500) from Digital Healthcare Limited and £10,833 (2006: £20,000) from Oxonica plc in respect of his services. Mr Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.

Mr Last, from January 2008 Chairman of the Company, is a non-executive director of Patsystems plc. The appointment was made pursuant to an agreement following the investment made in that company. During the year Mr Last received £27,500 (2006: £27,500) from Patsystems plc in respect of his services. Mr Last holds a 0.5% equity stake in Patsystems plc.

17. Events after the Balance Sheet Date

On 3 April 2008 YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity Limited, the Company's Fund Manager, accepted an offer from GLE Group to acquire its entire share capital. GLE operates a range of businesses, including property investment and development, business finance, business development and an economic development consultancy.

It is not envisaged that there will be any change to either the members of the Company's investment team or the operations of YFM Private Equity Limited that would have any material effect in respect of its relationship with British Smaller Technology Companies VCT 2 plc or its ability to manage its investment portfolio.

Since the year end, the Company has invested £167,615 in Silistix Limited.

18. 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 Company classifies its financial assets as either fair value through profit or loss or loans and receivables.

The investments are valued in accordance with the policy stated on page 14. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value due to their short term maturity. 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, fixed rate and variable 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.

In accordance with IAS 39, the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain criteria set out in the standard. No embedded derivatives have been identified by the Company.

The accounting policies for financial instruments have been applied to the items below:

	2007		2006	
	Loans and receivables £000	**Assets at fair value through profit or loss £000**	Loans and receivables £000	Assets at fair value through profit of loss £000
Assets as per balance sheet				
Cash and cash equivalents	**227**	**4,110**	525	4,459
Trade and other receivables	**228**	**–**	335	–
Investments at fair value through profit or loss	**–**	**8,743**	–	9,008
	455	**12,853**	860	13,467

	2007 Other financial liabilities £000	2006 Other financial liabilities £000
Liabilities as per balance sheet		
Trade and other payables	**(157)**	(391)
	(157)	(391)

Assets classified as fair value through profit or loss were designated as such upon initial recognition. The Company has not reclassified financial assets between any of the categories detailed in IAS39, either in current or prior periods.

At 31 December 2007 and 31 December 2006, the financial investments, by value, comprised:

	2007		2006	
	£000	**%**	£000	%
Venture capital investments				
Ordinary shares	**7,266**	**55.2**	8,611	61.8
Loan stock	**1,219**	**9.3**	197	1.4
Preferred Ordinary Shares	**258**	**2.0**	200	1.4
	8,743	**66.5**	9,008	64.6
Fixed Interest Government Securities	**4,110**	**31.3**	4,459	32.0
Cash at bank	**227**	**1.7**	525	3.8
Other financial assets	**228**	**1.7**	335	2.4
Other financial liabilities	**(157)**	**(1.2)**	(391)	(2.8)
	13,151	**100.0**	13,936	100.0

18. Financial Instruments (cont.)

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

18a Market Risk

The Company invests in new and expanding technology businesses, in some cases the shares of which may not be traded on the stock market. Consequently, exposure to market factors in relation to many investments stems from market based measures that may be used to value unlisted investments.

The market also defines the value at which investments may be realised. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

Stock market valuations govern the Company's ability to rebase its Financial Intermediaries and Claims Office (FICO) ratios, for compliance with VCT regulations. Consequently, market movements also result in low level compliance risk, although the Company currently operates well within its FICO thresholds.

Equity Price Risk

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. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for venture capital trusts.

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the consolidated balance sheet as fair value through profit or loss. The Company is not exposed to commodity price risk.

To manage price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the board. Exposure to any one stock is limited to 20% of the total cost of investments and 25% of total NAV. Where flotation means this limit is exceeded, then the board will seek to reduce the holding accordingly. The board seeks to invest in counter-cyclical stocks where these are identified.

22% of the value of the Company's equity investments are traded on AIM. A 5% increase in stock prices as at 31 December 2007 would have increased the net assets attributable to the Company's shareholders and decreased the total loss for the year by £83,000 (0.50 pence per share) (2006: total increased profit by £144,000 0.87 pence per share). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and increased the total loss for the year by an equal amount.

78% of the value of the Company's equity investments are in unquoted companies held at fair value. The valuation methodology for these investments can include the application of an externally produced indices, normally the Private Company Price Index, applying a discount where appropriate. This is based on the actual transacted values for private companies. Therefore the value of the unquoted element of the portfolio may be indirectly affected by price movements on the listed exchanges which may be factored into the sale prices of other businesses. A 5% increase in the valuations of unquoted equity investments at 31 December 2007 would have increased the net assets attributable to the Company's shareholders and decreased the total loss for the year by £294,000 (1.77 pence per share) (2006: increased total profit by £274,000 1.65 pence per share). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and increased the total loss for the year by an equal amount.

The largest single concentration of risk relates to the Company's investment in Digital Healthcare which constitutes 14.6% (2006: 13.7%) of the net assets attributable to the Company's shareholders. The board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those suffering full impairment, is 3.5% (2006: 3.8%) of the value of net assets.

18. Financial Instruments (cont.)

Interest rate Risk

The Company's venture capital investments include £1,219,000 of loan stock in unquoted companies. The majority of this loan stock is at fixed rates to guard against fluctuations in interest rates. The Company is exposed to interest rate risk on 10% of its loan stock portfolio. The Company also has some exposure to interest rates as a result of interest earned on bank deposits. The Company's exposure to interest rate risk is judged to be immaterial.

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.

	2007		2006	
	Weighted average interest rate	**Weighted average time for which rate is fixed Months**	Weighted average interest rate	Weighted average time for which rate if fixed Months
Loan stock	**7.03%**	**39**	1.22%	–
Government Gilts	**5.20%**	**30**	5.65%	33
Combined	**5.64%**	**32**	4.77%	24

Foreign Exchange Risk

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). Financial assets are predominately held in sterling, however at 31 December 2007 the Company had investments valued at £552,000 denominated in US dollars (2006: £300,000).

A 10% decrease in the strength of the US dollar against Sterling would have increased the net assets attributable to the Company's shareholders and decreased the total loss for the year by £55,000 (0.33 pence per share) (2006: increased total profit by £30,000, 0.18 pence per share); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and increased the total loss for the year by an equal amount.

The Company has not hedged the sterling value of the investment priced in foreign currencies by the use of derivatives as foreign currency exposure is not seen as a significant risk.

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.

The board assesses the Company's exposure to foreign exchange risk on an ongoing basis. Concentration of investments in the UK ensures exposure to currency risk remains low.

18b Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. In both years the carrying amounts of financial assets represent the maximum credit risk exposure at the balance sheet date.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock. The Company does not invest in floating rate instruments other than unquoted loan stock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed above.

The fair value of the loans and receivables is not regarded as having changed due to changes in credit risk in either year.

18. Financial Instruments (cont.)

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. All the assets of the Company which are traded on a recognised exchange are traded by Landsbanki, the Company's broker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited.

Substantially all of the cash held by the Company is held by a single bank. Bankruptcy or insolvency of this bank may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The Company banks with a large reputable bank. Should the credit quality or the financial position of the bank deteriorate significantly the Fund Manager will move the cash holdings to another bank.

The maturity dates of the loan stock portfolio are as follows:

		2007 £000			2006 £000	
	<1 year	**1-2 years**	**2-5 years**	<1 year	1-2 years	2-5 years
Unquoted loan investments	**225**	**195**	**799**	125	150	372

18c Liquidity Risk

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. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company also needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company invests its surplus funds in highly liquid government gilts. The Company's listed securities are considered to be readily realisable as they relate solely to UK Government stock, which is widely traded. Investments in Government stocks are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Consequently, trading in these stocks is determined by the demand for venture capital funds.

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.

The Company's liquidity risk is managed on an ongoing basis by the Fund Manager in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. 31% of the Company's assets are in the form of liquid cash or cash equivalents. There are no undrawn committed borrowing facilities at either year end.

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 14. Where investments are in quoted stocks, fair value is set at market price. Non-quoted investments are valued in line with IPEVC valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

Price of recent investment – The cost of the investment is taken as a reasonable assessment of fair value for period of up to one year. During this period performance against budget is monitored for evidence of impairment. Valuations may be re-based following substantial investment by a third party when this offers evidence that there has been a change to fair value.

Earnings multiple – Market indices or comparators, normally the Private Company Price Index (PCPI), are used as a market-based indication of the potential earnings of an investee company. A discount is applied by the Fund Manager based on the perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights. Only a small number of investments are valued using PCPI.

Although permitted by the IPEVC, other valuation methods have not been used in the year.

Notes to the Financial Statements

19. Capital Management

The Company's objectives when managing capital are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- to ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified

The Company has no external debt, consequently all capital is represented by the value of share capital, distributable and other reserves. Total shareholder equity at 31 December 2007 was £13.2 million.

In order to maintain or adjust its capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. The share buy-back policy was suspended in 2006 to maintain the level of capital available for investment, as this was believed by the board to be in the long-term interest of the Company and shareholders.

There have been no changes in capital management objectives or the capital structure of the business from the previous period. The Company is not subject to any externally imposed capital requirements.

Financial History

	Year ended 31 December 2007	**Year ended 31 December 2006**	**Year ended 31 December 2005**	**Year ended 31 December 2004**	**Year ended 31 December 2003**
Income	£339,000	£220,000	£82,000	£77,000	£256,000
(Loss) profit on ordinary activities before and after tax	(£203,000)	£1,515,000	£(421,000)	£1,080,000	£(909,000)
(Loss) earnings per ordinary share	(1.22)p	9.0p	(5.14)p	13.79p	(11.64)p
Total recognised (loss) gain per ordinary share	(1.22)p	9.0p	(5.14)p	13.79p	(7.09)p
Total dividend per share paid and declared in the year	3.0p	2.0p	2.0p	5.0p	–
Net assets	£13,151,000	£13,936,000	£12,840,000	£7,606,000	£6,616,000
Net asset value per share	79.0p	83.7p	74.2p	97.1p	84.6p
Total return per share	89.5p	90.7p	81.2p	97.1p	84.6p

The accounts were prepared under UK Generally Accepted Accounting Practices in 2003 and were prepared under International Financial Reporting Standards in 2004, 2005, 2006 and 2007. The loss on ordinary activities before and after tax for 2003 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 13 May 2008 at 12.30 pm 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 2007 be received.
2. That a final dividend for the year ended 31 December 2007 of 1.5 pence per ordinary share be approved.
3. That the Directors' Remuneration Report be approved.
4. That Mr R Last who retires by rotation be re-elected as a Director.
5. That Mr S J Noar who retires by rotation be re-elected as a Director.
6. That PKF (UK) LLP be re-appointed as auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
8 April 2008

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, speak and vote instead of him. A proxy need not be a member of the Company.

(2) A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(3) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting.

(4) 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 12.30 pm on 11 May 2008, 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.

(5) 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.

(6) Biographical details concerning the two Directors retiring by rotation and offering themselves for re-election can be found at page 15 of the Annual Report.

(7) Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 ("the Act") are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly. In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the 2006 Act. Persons nominated to receive information rights under Section 146 of the 2006 Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149(2) of the 2006 Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

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 13 May 2008 at 12.30 pm

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 13 May 2008 at 12.30 pm and at any adjournment thereof.

Number of ordinary shares proxy is appointed over...

Please also tick here if you are appointing more than one proxy ☐

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 a final dividend	☐	☐	☐
3.	To approve the Directors' Remuneration Report	☐	☐	☐
4.	To re-elect as a Director Mr R Last	☐	☐	☐
5.	To re-elect as a Director Mr S J Noar	☐	☐	☐
6.	To re-appoint PKF (UK) LLP as auditors	☐	☐	☐

Signature .... Dated 2008

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) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(c) 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.

(d) 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.

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, Proxies Department, 34 Beckenham Road, Beckenham, Kent, BR3 4BR 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.

(f) In accordance with Section 325 of the Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149 (2) of the Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

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CAPITA REGISTRARS
PROXY DEPARTMENT
PO BOX 25
BECKENHAM
KENT
BR3 4BR

Second fold

First fold

Advisers to the Company

Fund Manager and Custodian
YFM Private Equity Limited
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

Registrars
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4BR

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

Stockbrokers
Landsbanki
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

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