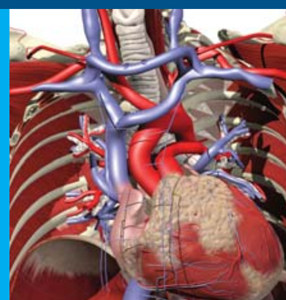
Annual Report
for the year ended
31 December 2008





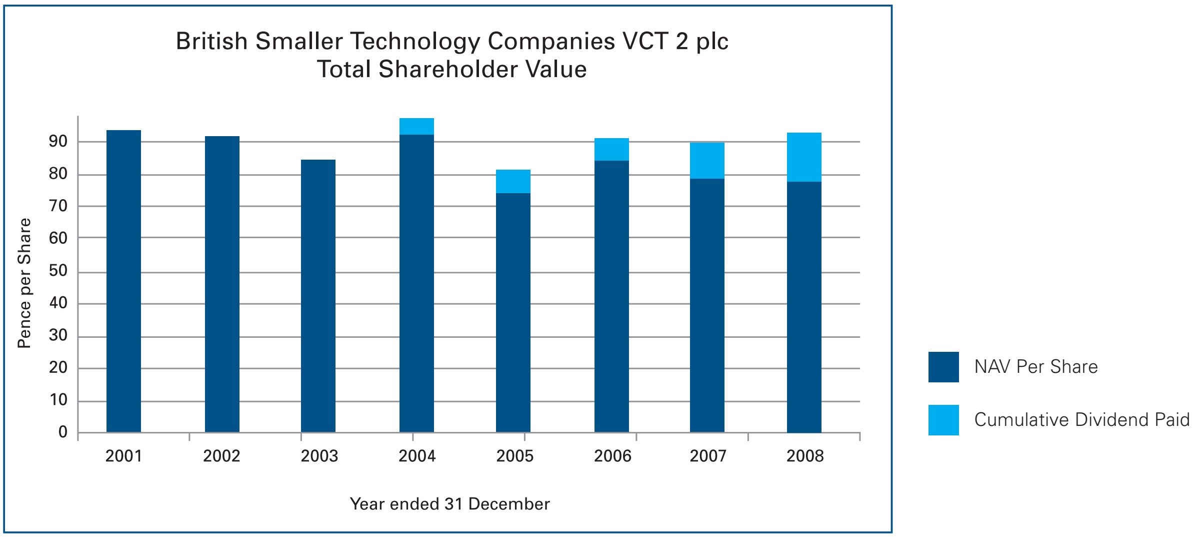

BRITISH SMALLER TECHNOLOGY COMPANIES VCT 2 plc

Contents

Financial Summary

	2008	2007
Profit (loss) for the year	**£558,000**	(£203,000)
Dividend per share paid and proposed for the year	**6.0p**	3.0p
Total cumulative dividends paid	**16.0p**	10.5p
Net asset value	**£12,794,000**	£13,151,000
Net asset value per share	**76.9p**	79.0p
Total return per share	**92.9p**	89.5p

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	23 March 2009	Ex-dividend Date	1 April 2009
Record Date	3 April 2009	Annual General Meeting	13 May 2009

There is little doubt that financial markets have been extremely volatile, with the banking sector in particular undergoing a major upheaval that has in many respects made operating, developing and growing businesses even more of a challenge. Against this backcloth I am particularly pleased to report that your Company has increased total return (net asset value plus cumulative dividends) to 92.9 pence per share from 89.5 pence per share. Net Asset Value as at 31 December 2008 was 76.9 pence per share (79.0 pence per share: December 2007).

Dividends paid in the year amounted to 5.5 pence per share (including a 2.0 pence interim and 2.0 pence special dividend) compared to 3.5 pence per share in 2007. Your Board is recommending a final dividend of 2.0 pence per share in respect of 2008, an increase of 33.3% compared to the 1.5 pence per share final dividend in 2007. If approved, this dividend will be paid on 19 May 2009 to shareholders on the register at 3 April 2009. The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

Investment Portfolio

During the year the Company realised investments amounting to £2.76 million, the most significant being in Sarian Systems Limited which generated proceeds of £2.6 million. Sarian Systems Limited, a specialist software communications business, was developed from start up to a business with an international customer base. It was sold to USA based Digi Inc. for $30 million, retaining its UK development arm. The total return over the life of the investment was £2.7 million.

This year has also seen further progress made by a number of portfolio companies. Digital Healthcare Limited was successful in raising further finance totalling £2.6 million to continue its expansion into the USA, and your Company invested £510,000 as part of this funding round. Silistix Limited, a producer of self timed silicon chips, has entered in to a number of development contracts and has raised additional finance of £3.7 million during the year which your Company continued to support, resulting in a further investment of £442,000.

A further investment of £58,000 was completed in to RMS Group Holdings Limited in support of a mezzanine financing round.

During the year unrealised losses in respect of investments in the portfolio totalling £1,407,000 (2007: £1,834,000) have been provided for, being primarily due to the fall in the value of AIM quoted investments which are required to be valued at quoted bid prices.

Financial Results

This year your Board has, in line with other companies in our sector, adopted the new Statement of Recommended Practice which means that the financial results are presented in a different format to those of the previous year. In particular the income and costs are now analysed between revenue and capital. For comparative purposes the prior year results have been re-stated.

The result for the financial year ended 31 December 2008 was a pre-tax profit of £0.56 million which comprised profits in respect of capital and revenue of £0.45 million and £0.11 million respectively, as compared to an overall loss before taxation of £0.2 million in 2007 (which comprised capital loss of £0.23 million and profit on revenue of £0.03 million).

The movement in net asset value in the year has been:

	Pence/share
31 December 2007	79.0
Dividends paid in year	(5.5)
Net increase in value	3.4
31 December 2008	76.9

Cash and gilt investments at the end of the year amounted to £4.97 million, representing 39% of net asset value. Your Board considers that in the short term this is 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 distributions to shareholders in the form of tax free dividends.

Shareholder Relations

Your 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 workshop held during 2008 was the best attended to date with over 150 investors attending. Your Board remains committed to this programme.

Following the withdrawal of the share buy back policy in 2006, the share price has remained at a discount to the net asset value of between 40-45%, reflecting the long term nature of VCT shares and a relatively illiquid after-market. Your Board continues to keep this under review but for the time being remains focused on utilising cash to support the existing portfolio with a view to increasing value, making selective new investments under the revised investment strategy, and returning value to all shareholders in the form of tax free dividends.

The Annual General Meeting of the Company will be held at 9.30 am on 13 May 2009 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 47.

Outlook

The coming year looks set to remain a challenging economic environment. However, your Board believes that the Company's relatively strong balance sheet which has a high degree of liquidity leaves it well placed to take advantage of investment opportunities as they arise, whilst still affording sufficient funds to support the existing portfolio. Your Board will continue to keep the level of liquidity under review and does not rule out the possibility of increasing its investment capacity should the need arise.

Richard Last
Chairman
25 March 2009

Portfolio valuation at 31 December 2008 and full history of realisations up to 31 December 2008

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost** £000	Realised Proceeds to Date £000	Investment Valuation at 31 December 2008 £000	Realised and Unrealised to Date £000
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	–	2,983
Sarian Systems Ltd	Dec-05	Ilkley	Telecoms	928	2,605	–	2,605
Vibration Technology Ltd	Mar-02	Glasgow	Industrial	1,061	2,328	–	2,328
Digital Healthcare Ltd	Jun-05	Cambridge	Healthcare	3,073	–	2,112	2,112
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	–	1,875
Silistix Ltd	Dec-03	Manchester	Software	1,006	–	894	894
Immunobiology Ltd	Jun-03	Cambridge	Healthcare	850	–	800	800
Primal Pictures Ltd	Dec-05	London	Healthcare	961	–	576	576
Pressure Technologies plc	Jun-07	Sheffield	Industrial	300	–	480	480
DxS Ltd	Apr-04	Manchester	Healthcare	163	–	417	417
Waterfall Services Ltd	Feb-07	Watford	Healthcare	250	–	341	341
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	–	340	340
Tamesis Ltd	Jul-01	London	Software	150	317	–	317
Ellfin Home Care Ltd	Dec-07	Oldham	Healthcare	296	–	296	296
RMS Group Holdings Ltd	Jul-07	Goole	Industrial	408	7	264	271
Oxonica plc	May-02	Oxford	Chemical	241	255	11	266
Harvey Jones Ltd	May-07	London	Manufacture	389	–	247	247
Tekton Group Ltd	Dec-05	Manchester	Software	100	220	–	220
Tissuemed Ltd	Dec-05	Leeds	Healthcare	48	–	180	180
Optos plc	Dec-05	Dunfermline	Healthcare	153	93	83	176
Patsystems plc	Sep-07	London	Software	317	–	170	170
Voxar Ltd	Dec-05	Edinburgh	Software	–	134	–	134
Arakis Ltd	Mar-04	Essex	Healthcare	14	108	–	108
SoseiCo Ltd	Aug-05	Toyko, Japan	Healthcare	158	94	–	94
Brulines plc	Oct-06	Stockton-on-Tees	Software	81	–	82	82
Hallco 1390 Ltd	Dec-06	Manchester	Software	1	77	–	77
Cambridge Cognition Ltd	May-02	Cambridge	Software	240	–	74	74
Solcom Ltd	Dec-05	Ryde	Software	–	–	73	73
Hallco 1389 Ltd	Dec-06	Manchester	Software	49	49	–	49
Allergy Therapeutics plc	Oct-04	Worthing	Healthcare	350	–	48	48
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				**16,599**	**11,183**	**7,488**	**18,671**

* 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 2008

This section describes the business of the active companies in the portfolio, in order of valuation at 31 December 2008 as detailed on page 6. 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	£3,071,603
Valuation	£2,112,111
Dates of investment	June & December 2005, July 2007, October & November 2008
Equity held	25.04%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 30 September	**2007** **£million**	2006 £million
Sales	**2.15**	2.08
Loss before tax	**(1.52)**	(0.91)
Retained loss	**(1.41)**	(0.81)
Net assets	**1.59**	1.40

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. In November 2008, it raised a further £2.6 million to continue to expand its US presence.

Silistix Limited

Manchester
www.silistix.com

Cost	£1,005,781
Valuation	£894,688
Dates of investment	December 2003, October 2004, December 2005, July 2006, January 2007, January, August & November 2008
Equity held	8.9%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 October	**2006** **£million**	2005 £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 spin-out from the University of Manchester producing a self-timed silicon chip to deliver faster and easier chip design and reduced energy consumption. The most recent funding round supported the expansion of the resources to service specific customer developments.

Immunobiology Limited

Cambridge
www.immbio.com

Cost	£850,000
Valuation	£800,000
Dates of investment	June & December 2003, November & December 2005, August 2007
Equity held	12.47%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 May	**2007** **£million**	2006 £million
Sales	**Nil**	0.03
Loss before tax	**(1.11)**	(0.49)
Retained loss	**(1.04)**	(0.39)
Net assets	**0.17**	1.12

Immunobiology is developing high efficacy vaccines for infectious diseases. The company currently has four vaccines at different stages of commercial trial.

Primal Pictures Limited

London
www.primalpictures.com

Cost	£961,422
Valuation	£576,000
Date of investment	December 2005
Equity held	16.64%
Valuation basis	Earnings multiple

Year ended 31 December	**2007** **£million**	2006 £million
Sales	**2.15**	2.02
Profit (loss) before tax	**0.01**	(0.25)
Retained profit (loss)	**0.01**	(0.17)
Net liabilities	**(1.93)**	(1.94)

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.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost	£300,290
Valuation	£480,240
Dates of investment	June 2007 & May 2008
Equity held	1.77%
Valuation basis	Quoted bid price
Dividends received	£4,002 (2007: £nil)

Year ended 27 September	**2008 £million**	2007 £million
Sales	**23.66**	15.12
Profit before tax	**5.05**	1.38
Retained profit	**3.58**	0.94
Net assets	**11.17**	7.80

Pressure Technologies 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.

DxS Limited

Manchester
www.dxsgenotyping.com

Cost	£162,750
Valuation	£416,927
Dates of investment	April 2004 & December 2006
Equity held	4.15%
Valuation basis	Earnings multiple
Interest	£13,759 (2007: £14,301)

Year ended 30 June	**2008 £million**	2007 £million
Sales	**3.29**	1.08
Profit (loss) before tax	**0.39**	(0.80)
Retained profit (loss)	**0.86**	(0.74)
Net liabilities	**(2.81)**	(3.67)

DxS provides genetic analysis services to support clinical development and enable the delivery of pharmacodiagnostics to support future therapies. The company continues to successfully expand its customer base.

Waterfall Services Limited
(formerly Caterplus Services Ltd)

Watford
www.caterplus.co.uk

Cost	£250,129
Valuation	£341,100
Dates of investment	February 2007 & June 2008
Equity held	6.17%
Valuation basis	Earnings multiple
Dividends received	£nil (2007: £5,170)
Interest	£13,370 (2007: £11,946)

Year ended 31 March (2007: 9 months)	**2008 £million**	2007 £million
Sales	**11.07**	1.92
Profit before tax	**0.32**	0.06
Retained profit	**0.18**	0.02
Net assets	**0.52**	0.39

Waterfall is a contract caterer specialising in the care home sector. The company successfully completed the acquisition of Taylor Shaw in the year, doubling the size of the business.

The ART Technology Group Inc.

Cambridge, USA
www.atg.com

Cost	£275,157
Valuation	£339,695
Dates of investment	April 2003 & October 2008
Equity held	0.20%
Valuation basis	Quoted bid price

Year ended 31 December	**2008 $million**	2007 $million
Sales	**164.64**	137.06
Profit (loss) before tax	**5.39**	(3.75)
Retained profit (loss)	**3.80**	(4.19)
Net assets	**110.95**	107.10

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.

Ellfin Home Care Limited

Oldham

Cost	£296,000
Valuation	£296,000
Dates of investment	December 2007 & October 2008
Equity held	4.38%
Valuation basis	Price of recent investment, reviewed for impairment
Interest	£11,998 (2007: £771)

The audited financial statements for Ellfin Home Care are not yet due.

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 two acquisitions have been completed. Further funding will be required to fulfil the growth strategy.

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost	£401,377
Valuation	£263,800
Dates of investment	July 2007 & June 2008
Equity held	3.43%
Valuation basis	Earnings multiple
Interest	£36,705 (2007: £15,028)

Year ended 31 December	2007 £million
Sales	**13.40**
Profit before tax	**0.53**
Retained profit	**0.33**
Net assets	**17.03**

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.

Harvey Jones Limited

London
www.harveyjones.com

Cost	£388,571
Valuation	£247,000
Date of investment	May 2007
Equity held	3.44%
Valuation basis	Earnings multiple
Interest	£34,828 (2007: £23,282)

Year ended 31 December	2007 £million
Sales	**6.88**
Profit before tax	**0.68**
Retained profit	**0.29**
Net assets	**0.86**

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.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost	£47,539
Valuation	£179,701
Dates of investment	December 2005 & March 2007
Equity held	1.68%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 March	2008 £million	2007 £million
Sales	**0.27**	Nil
Loss before tax	**(1.00)**	(1.18)
Retained loss	**(0.86)**	(1.04)
Net assets	**2.13**	1.13

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. The company secured investment from a new trade investor in December 2008.

Patsystems plc

London
www.patsystems.com

Cost	£317,145
Valuation	£170,061
Dates of investment	September 2007 & March 2008
Equity held	0.65%
Valuation basis	Quoted bid price
Dividends received	£3,941 (2007: £nil)

Year ended 31 December	2008 £million	2007 £million
Sales	**19.63**	16.96
Profit before tax	**2.07**	2.19
Retained profit	**0.62**	1.84
Net assets	**20.05**	18.69

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 which is the only real-time risk management system available currently.

Optos plc

Dunfermline
www.optos.com

Cost	£114,809
Valuation	£82,575
Dates of investment	December 2005 & February 2007
Equity held	0.16%
Valuation basis	Quoted bid price

Year ended 30 September	2007 $million	2006 $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 ophthalmoscope technology enabling optometrists to produce a high resolution scan of 80% of the retina in only quarter of a second. Optos continues to expand its market share, principally in the US.

Brulines plc

Stockton-on-Tees
www.brulines.com

Cost	£81,180
Valuation	£82,500
Date of investment	October 2006
Equity held	0.24%
Valuation basis	Quoted bid price
Dividends received	£2,343 (2007: £2,937)

Year ended 31 March	2008 £million	2007 £million
Sales	**17.06**	16.76
Profit before tax	**4.17**	2.37
Retained profit	**2.86**	1.46
Net assets	**13.26**	11.71

Brulines is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK Licensed on-trade, in particular the tenanted pub sector. Brulines has consolidated its market leading position and continues to seek to expand its service and product offering.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost	£240,000
Valuation	£73,808
Date of investment	May 2002
Equity held	3.36%
Valuation basis	Price of recent investment, reviewed for impairment and supported third party investment

Year ended 31 December	2007 £million	2006 £million
Sales	**1.99**	1.12
Loss before tax	**(0.96)**	(1.22)
Retained loss	**(0.96)**	(1.21)
Net assets	**0.62**	1.58

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.

Solcom Limited

Ryde
www.solcom.com

Cost	£nil
Valuation	£73,000
Date of investment	December 2005
Equity held	15.57%
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.

Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost	£350,254
Valuation	£47,965
Dates of investment	October 2004, April 2005 & February 2007
Equity held	0.59%
Valuation basis	Quoted bid price

Year ended 30 June	**2008 £million**	2007 £million
Sales	**31.02**	25.74
Loss before tax	**(20.24)**	(25.76)
Retained loss	**(20.30)**	(23.26)
Net (liabilities) assets	**(11.29)**	8.60

Allergy Therapeutics specialises in the treatment and prevention of allergies. Whilst good progress has been made in expanding sales, growth has been inhibited until such time as FDA approval is gained for the key product.

Oxonica plc

Oxford
www.oxonica.com

Cost	£62,107
Valuation	£10,646
Dates of investment	May & December 2002, January & August 2005
Equity held	0.12%
Valuation basis	Quoted bid price

Year ended 31 December	**2007 £million**	2006 £million
Sales	**4.17**	10.23
Loss before tax	**(5.44)**	(2.53)
Retained loss	**(5.44)**	(2.41)
Net assets	**19.64**	22.39

Oxonica continues to develop its range of nanomaterials. Progress in 2008 has fallen below expectations with the fuel additive products not yet recovering market share.

Fund Manager's Review

Introduction

This year has again seen the continuation of realisations at values in excess of the carrying value.

There have been significant positive developments within a number of the businesses in the portfolio. These include the continued expansion of Digital Healthcare's US business that enabled it to raise further funding in the second half of the year; the rapid expansion of sales and profits at DxS as its diagnostic services gain further market traction and the growing interest in Silistix's product from a wider range of international businesses.

The successful acquisition of Taylor Shaw by Waterfall Services could well be transformational for the business and, whilst it remains early in the development cycle, the results produced by Immunobiology's vaccines continue to impress.

Cash and gilt investments at 31 December 2008 were £4.97 million representing 39% of net assets. This compares to £4.34 million at 31 December 2007. The successful realisation of Sarian Systems Limited in the first half of the year enabled the payment of a special dividend of 2 pence per share to accompany the interim dividend. The Company remains in a strong cash position enabling further investment in selective opportunities and dividends in 2009.

Portfolio Overview

Progress in 2008

Whilst this year has undoubtedly produced a number of challenges, both in terms of trading and raising funds, the portfolio as a whole has generally proved resilient. Encouragingly all the companies that sought funds were successful in closing the rounds, the portfolio has in the main been able to avoid the pressures brought about by leverage and we have seen progress through increases in earnings from a number of investments.

During the year investments were made in five companies, four being 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
Follow-on Investments	
Digital Healthcare Limited	510
Ellfin Home Care Limited	46
RMS Group Holdings Limited	58
Silistix Limited	442
	1,056
In lieu of earn-out	
Patsystems plc	27
Total	**1,083**

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.

The follow-on investments have been in a mixture of earlier stage investments where capital growth is the principal focus and later stage investments in support of acquisition strategies or where higher yields are available.

Realisations

In April 2008, the Company sold its entire holding in Sarian Systems Limited. It was acquired by NASDAQ-listed Digi Inc for a total consideration of $30 million which resulted in sale proceeds to the Company of £2.6 million. This compared to a carrying value at 31 December 2007 of £1.3 million and an original cost of £0.9 million.

In addition, the Company realised a further £0.13 million as a result of the disposal of the residual investment in Tekton.

Further proceeds were received as a result of the earn-out from the disposal of Tamesis Limited. This earn-out was satisfied by the issue of shares in Patsystems plc. This final settlement being valued at £0.03 million.

Performance History

The chart in the Financial Summary Section on page 3 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 consolidating the investments made in the previous year, continuing to support the enlarged portfolio and again achieving disposals above the carrying values. The Company's cash reserves remain strong even after taking account of the increased dividends paid in the year.

2009 will undoubtedly continue to throw up increasing challenges and may in part put downward pressure on some valuations. However, this Company remains well placed to meet those challenges.

David Hall
YFM Private Equity Limited
25 March 2009

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, reviewed for impairment.** 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 (51)

Qualified as a chartered accountant with PricewaterhouseCoopers. He is also chairman of Patsystems plc and Arcontech plc both AIM-quoted software companies. He is a non-executive director of Corero plc and Lighthouse plc, both AIM listed companies, and British Smaller Companies VCT plc.

Philip Simon Cammerman (66)

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 he retired in April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Companies VCT plc and is a non-executive director of Pressure Technologies plc.

Robert Martin Pettigrew (64)

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, and Acal Energy Limited (of which he is chairman). He is also a non-executive director of British Smaller Companies VCT plc.

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 2008

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the year ended 31 December 2008.

Principal Activity

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

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

The Company operates as a venture capital trust and has been approved by HM Revenue & Customs as an authorised venture capital trust under Section 274 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 Section 274 of the Income Tax Act 2007.

Statement of Recommended Practice

On 12 November 2004 the Company revoked investment company status and since that date has been preparing accounts in accordance with the requirements of Schedule 4 of the Companies Act 1985. The scope of the latest Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in January 2009 has been widened to incorporate VCTs for the first time and following the recommended early adoption, the Company is now required to comply with the requirements of this SORP. The main effect of this adoption is that the Company presents a two column Income Statement split between revenue and capital, and splits the Retained Earnings reserve between Revenue and Realised and Unrealised Capital reserves. The prior year comparatives have been restated accordingly.

Business Review

As in previous years, a review of the business's activities over the past twelve months and the outlook for future developments are included within the Chairman's Statement and Fund Manager's Review. The Company, in common with the venture capital trust industry, did not have any employees apart from the 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 Section 274 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 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, the International Accounting Standards and the Statement of Recommended Practice. 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 22.

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 your Company was launched to the current reporting date, inclusive of any recoverable tax credits, to the net asset value at that date.

The chart showing the Total Return of your Company is included within the financial summary on page 3.

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 Section 274 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 investment and 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 during the period all of the VCT legislative tests have been met.

Results and Dividends

The profit on ordinary activities after taxation for the year amounted to £558,000 (2007: £203,000 loss).

The revenue return for the year amounted to £109,000 (2007: £25,000). The capital return for the year amounted to £449,000 (2007: £228,000 loss).

The directors recommend the payment of a final dividend of 2.0p per share (2007: 1.5p).

The net asset value per Ordinary share at 31 December 2008 was 76.9p (2007: 79.0p). The transfer to and from reserves is given in the Statement of Changes in Equity on page 30.

Share Capital

As shown in note 11, the Company has only one class of Ordinary shares.

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 26 (2007: 36).

Fund Manager

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

There has been no change, and it is not envisaged that there will be any change, to either the managers of the Company's investment team or to 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 operate the Company and manage its investment portfolio.

Environment

The management and administration of the Company is undertaken by its Manager. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption.

Directors and their Interests

The directors of the Company at 31 December 2008, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 25 to 26.

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 47 of these financial statements.

The Ordinary business includes a resolution (Ordinary Resolution (5)) to be proposed to authorise directors to issue and allot new shares up to a further 10% of the issued share capital of the Company. The Directors believe this to be in the Company's interest as from time to time the Company is approached by persons interested in purchasing new shares and if so authorised the directors will be able to respond positively to such applications. Resolution (6), being a Special Resolution, empowers the directors to allot such shares without regard to any rights of pre-emption on the part of existing shareholders.

In addition the Directors are recommending the adoption of new Articles of Association ("the New Articles") in order to update the Company's current Articles of Association ("Current Articles") primarily to take account of changes in company law brought about by the Companies Act 2006 ("2006 Act") which is being brought into force in stages. Resolution (7), being a Special Resolution, to adopt the New Articles will be proposed at the Annual General Meeting (details of which are at page 47 of this document). Further changes to the New Articles may be required in light of The Companies (Shareholders' Rights) Regulations 2009 expected to come into force in August 2009 to implement the European Directive on the exercise of certain rights of shareholders in listed companies and/or further provisions of the 2006 Act coming into force.

The principal changes introduced by the New Articles are summarised below. Other changes, which are of minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act have not been noted.

A copy of the New Articles, together with a copy marked-up to show the differences between the New Articles and the Current Articles are available for inspection at the Company's registered office and also at YFM's office at New City Court, 20 St Thomas Street, London, SE1 9RS during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this document until the close of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting itself from 9.00 am until the close of the meeting.

Specific references to the Companies Act 1985 in the Current Articles

Where provisions of the Companies Act 1985 have already been repealed or replaced in their entirety by new provision in the 2006 Act references to "the Act" (i.e. the Companies Act 1985) have been updated to refer to the 2006 Act.

Electronic and web communication

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications.

Before the Company can communicate with a member by means of a website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Form of resolution

The concept of extraordinary resolutions has not been retained under the 2006 Act, therefore references to extraordinary resolutions have been replaced with references to special resolutions. Similarly the term "extraordinary general meeting" is no longer used in the 2006 Act and therefore references to extraordinary general meetings have been replaced in the New Articles by references to general meetings. The Current Articles enable members to act by written resolution. Under the 2006 Act public companies can no longer pass written resolutions and these provisions have therefore been removed in the New Articles.

Convening general meetings and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required are being amended to conform with the new 2006 Act provisions. All general meetings of public companies (other than the annual general meeting) may now be called on 14 days notice whereas previously 21 days notice was required of a general meeting at which a special resolution was to be considered.

Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands (as well as on a poll) whereas under the 1985 Act proxies are only allowed to vote on a poll. The time limit for the appointment or termination of a proxy appointment has also been altered by the 2006 Act so that the articles of association of a company cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of the poll, with weekends and bank holidays being permitted to be excluded for this purpose. The New Articles reflect these provisions.

Investigations into interest in shares

Section 212 of the 1985 Act which allows public companies to investigate who held an interest in their shares, has been repealed and replaced by new (but similar) provisions in the 2006 Act. Although the regimes are substantially the same, appropriate cross referencing changes in the New Articles have been made.

Conflicts of Interest

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision for dealing with directors' conflicts of interest to avoid breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only those directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Exercise of members' rights

The 2006 Act provides for indirect investors who hold their shares through intermediaries to exercise certain membership rights. One of those rights is that members of a company (for instance, nominees) will be able to nominate another person (for instance, the beneficial holder of shares) to receive all of the information that those nominating members are entitled to receive as shareholders as if the nominated person was himself a shareholder. The New Articles provide for the nomination process and include associated provisions relating to the Company's maintenance of records of nominations made. The Directors believe that relatively few members will wish to make use of nomination rights but any members wishing to do so should contact the Company Secretary.

Directors' indemnities and loans to fund expenditure

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings. The New Articles reflect this and have been redrafted for clarity.

Deemed receipt of email

Following recommendation in the 2007 ICSA Guidance on Electronic Communication of Shareholders, the New Articles contain a provision stating that when any notice or other shareholder information is given or sent by the Company by electronic means, it shall be deemed to have been given on the expiration of 24 hours after it was sent to an address supplied by the member or person nominated by the member to receive shareholder information. This is different to the default provision in the 2006 Act. Section 1147(2) of the 2006 Act states that emails are deemed to be delivered 48 hours from the date they are sent.

General

References to Redeemable Preference Shares have been removed as such shares of the Company have been redeemed and no longer form part of the share capital, issued or unissued.

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

There have been no 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 safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published at www.yfmgroup.co.uk, which is a website maintained by the Company's 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 statements may differ from legislation in other jurisdictions.

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

The directors confirm, to the best of their knowledge:

- that the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the business review included within the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that they face.

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 'Board Composition' within this section).

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 four 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 three non-executive directors, all 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 14.

On 30 June 2008 Steve Noar resigned from the Board having been a non-executive director of the Company since 2000.

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 regards to investment appraisal and investment risk management. Individual biographies are at page 14 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 M Pettigrew, who retires by rotation at this year's AGM, because of his commitment, experience and continued contribution to the Company.

Meetings and Committees

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

The table below details the number of Board and Audit Committee meetings attended by each director. During the year there were 4 formal Board meetings and 2 Audit Committee meetings. The directors met via telephone conferences on 6 other occasions.

Director	Board meetings attended	Audit Committee meetings attended
R Last	10	2
P S Cammerman	8	1
S J Noar	4	1
R M Pettigrew	9	2

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 Mr Richard Last continues to be effective and that he continues to demonstrate a commitment to the role. The Chairman has confirmed that the performance of the director being proposed for re-election continues to be effective and that he continues 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 25 and 26. Any proposed appointment to the Board is a matter for the whole Board.

Audit Committee

The Audit Committee consists of R Last, R M Pettigrew, since 4 April 2008 P S Cammerman and until his retirement S J Noar, 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.

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 Nomination 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.

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 hold 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 14.

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 14. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

Internal Control

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005, the executive functions of the Company have been subcontracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- A clearly defined investment strategy for YFM Private Equity Limited, the 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 2008 and up to the date of this report.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Report.

The directors have reviewed the effectiveness of the Company's systems of internal control for the year to the date of this report. The directors are of the opinion that the Company's systems of internal financial, and other, controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

Corporate Governance and Voting Policy

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

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

Going Concern

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 in equities, in appropriate circumstances preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

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 £537,000 (2007: £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 HM Revenue & Customs 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 have been reclassified as non-current assets in the year, due to the volatility of the gilt markets during 2008.

Financial Instruments

Further information on financial instruments is provided in Note 19 to the financial statements.

Financial Assets

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

The Company invests in financial assets to comply with the VCT legislation and provide capital growth for shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company will have the option of repaying earlier. In some instances the redemption may carry a premium repayment.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

Details of financial assets held at 31 December 2008 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 25 March 2009 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 2008 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 2008	31 December 2007
P S Cammerman	**22,115**	22,115
R Last	**23,925**	18,925
R M Pettigrew	**37,524**	37,524

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

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

The Company had no employees in either year.

Administration

YFM Private Equity Limited has acted as 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 by the Financial Services Authority. Mr Cammerman was, until 3 April 2008 a director of YFM Private Equity Limited and until that date 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 2008 or 2007 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 as a former employee of YFM Private Equity Limited, is one of the beneficiaries of that Trust.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £59,315 (2007: £67,500). There were no payments to third parties in respect of directors' services (2007: £nil).

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

	2008	2007
	£	£
P S Cammerman	**12,552**	–
R Last	**23,087**	14,675
S J Noar (resigned 30 June 2008)	**7,338**	14,675
R M Pettigrew	**16,338**	14,675
Sir Andrew Hugh Smith (resigned 31 December 2007)	**–**	23,475

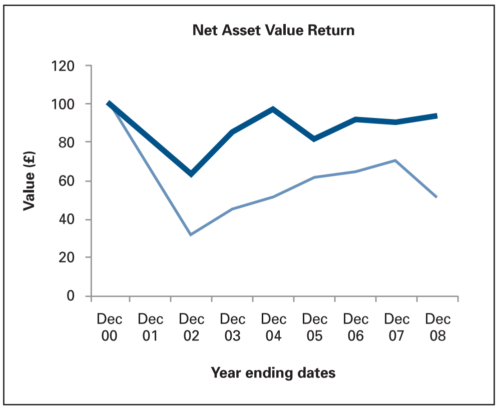
There are no executive directors (2007: Nil). Mr Cammerman, who was a director of the Company’s Fund Manager until 3 April 2008, has received fees with effect from 04 April 2008. None of Mr Cammerman’s remuneration from YFM Private Equity Limited was considered to relate to his role with the Company.

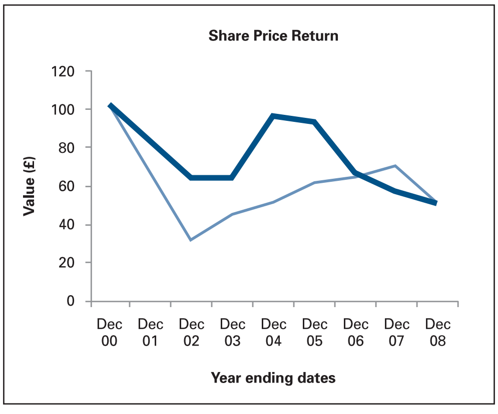
It is the Company’s policy not to provide any performance related emoluments, benefits in kind, any other emoluments or pension contributions to any director. No director is entitled to shares under any share option or long-term incentive schemes.

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 graphs below show 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 2008. The first graph looks at the value, by the end of 2008, of £100 invested in the Company's shares, excluding tax relief, with the value of £100 invested in the FTSE™ techMARK™ All-Share Index. The second graph displays the share price return from 2000 to 2008 compared to the FTSE™ techMARK™. 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.





British Smaller Technology Companies VCT 2 plc

FTSE™ techMARK™

This report was approved by the Board on 25 March 2009 and signed on its behalf.

Richard Last
Chairman

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 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes In 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, the unaudited part of the Directors' Remuneration Report and the rest of the unaudited information in this Annual 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 2008 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors
London
25 March 2009

Income Statement

For the year ended 31 December 2008

	Notes	2008 Revenue £000	2008 Capital £000	2008 Total £000	2007 Revenue (restated) £000	2007 Capital (restated) £000	2007 Total £000
Gain on realisation of investments	7	**–**	**1,369**	**1,369**	–	1,501	1,501
Losses on investments held at fair value	7	**–**	**(768)**	**(768)**	–	(1,426)	(1,426)
Income	2	**394**	**–**	**394**	339	–	339
Administrative expenses:	3						
Fund Management fee		**(95)**	**(285)**	**(380)**	(101)	(303)	(404)
VAT recovery		**57**	**107**	**164**	–	–	–
Other expenses		**(221)**	**–**	**(221)**	(213)	–	(213)
		(259)	**(178)**	**(437)**	(314)	(303)	(617)
Profit (loss) on ordinary activities before taxation		**135**	**423**	**558**	25	(228)	(203)
Taxation	4	**(26)**	**26**	**–**	–	–	–
Profit (loss) for the year attributable to equity shareholders		**109**	**449**	**558**	25	(228)	(203)
Basic and diluted earnings (loss) per ordinary share	6	**0.65p**	**2.70p**	**3.35p**	0.15p	(1.37)p	(1.22)p

The accompanying notes on pages 32 to 46 are an integral part of these financial statements.

The total column of this statement represents the Company's income statement, prepared in accordance with International Financial Reporting Standards ('IFRS'). The supplementary revenue and capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

Balance Sheet

At 31 December 2008

	Notes	2008 £000	2007 (restated) £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	**12,352**	12,853
Current assets			
Trade and other receivables	8	**388**	228
Cash and cash equivalents	9	**109**	227
		497	455
Liabilities			
Current liabilities			
Trade and other payables	10	**(55)**	(157)
Net current assets		**442**	298
Net assets		**12,794**	13,151
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
Realised capital reserve		**3,497**	2,224
Unrealised capital reserve		**(3,169)**	(1,539)
Special reserve		**4,786**	4,786
Revenue reserve		**332**	332
Total Shareholders' equity		**12,794**	13,151
Net asset value per Ordinary share	12	**76.9p**	79.0p

The accompanying notes on pages 32 to 46 are an integral part of these financial statements.

The Balance Sheet has been restated following the adoption of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) to show additional reserves.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 25 March 2009.

Richard Last
Chairman

Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital £000	Share premium account £000	Merger reserve £000	*Other reserves £000	Realised capital reserve (restated) £000	Unrealised capital reserve (restated) £000	Special reserve (restated) £000	Revenue reserve (restated) £000	Total equity £000
Balance at 31 December 2006	**1,664**	**69**	**5,525**	**90**	**–**	**–**	**–**	**6,588**	**13,936**
Adjustment re SORP	–	–	–	–	1,860	(390)	4,786	(6,256)	–
Restated at 31 December 2006	1,664	69	5,525	90	1,860	(390)	4,786	332	13,936
Revenue return for the year	–	–	–	–	–	–	–	25	25
Realisation of negative goodwill	–	–	–	–	128	(128)	–	–	–
Capital expenses	–	–	–	–	(303)	–	–	–	(303)
Unrealised loss on investments held at fair value	–	–	–	–	–	(1,426)	–	–	(1,426)
Realisation of prior year unrealised losses	–	–	–	–	(405)	405	–	–	–
Realisation of investments in the year	–	–	–	–	1,501	–	–	–	1,501
Dividends	–	–	–	–	(557)	–	–	(25)	(582)
Balance at 31 December 2007	**1,664**	**69**	**5,525**	**90**	**2,224**	**(1,539)**	**4,786**	**332**	**13,151**
Revenue return for the year	–	–	–	–	–	–	–	109	109
Capital expenses	–	–	–	–	(152)	–	–	–	(152)
Realisation of negative goodwill	–	–	–	–	448	(448)	–	–	–
Unrealised loss on investments held at fair value	–	–	–	–	–	(768)	–	–	(768)
Realisation of prior year unrealised gains	–	–	–	–	414	(414)	–	–	–
Realisation of investments in the year	–	–	–	–	1,369	–	–	–	1,369
Dividends	–	–	–	–	(806)	–	–	(109)	(915)
Balance at 31 December 2008	**1,664**	**69**	**5,525**	**90**	**3,497**	**(3,169)**	**4,786**	**332**	**12,794**

The Statement of Changes in Equity has been restated following the adoption of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) to show additional reserves.

The accompanying notes on pages 32 to 46 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 and provisions of the Companies Act 2006 for merger relief. The merger reserve is a non-distributable reserve.

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants and the capital redemption reserve was created for the purchase of own shares.

The special distributable reserve was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company.

The realised capital reserve includes gains and losses compared to cost on the realisation of investments , capital expenses, together with the related taxation effect and capital dividends paid to shareholders. This is a distributable reserve.

This unrealised capital reserve includes increases and decreases in the valuation of investment held at fair value. This is a non-distributable reserve.

The special reserve, realised capital reserve and revenue reserve are all distributable reserves. These reserves total £8,615,000 (2007: £7,342,000) representing an increase of £1,273,000 (2007: £364,000 increase) during the year. These increases arise from the profit for the year of £558,000 (2007: £203,000 loss), movements in the unrealised capital reserve of £1,630,000 (2007: £1,149,000) and dividends of £915,000 (2007: £582,000).

Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 £000	2007 (restated) £000
Net cash outflows from operating activities	14	**(305)**	(314)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(4,115)**	(6,620)
Proceeds from sale of financial assets at fair value through profit or loss	7	**5,217**	7,218
Net cash from investing activities		**1,102**	598
Cash flows used in financing activities			
Dividends paid		**(915)**	(582)
Net cash used in financing activities		**(915)**	(582)
Net decrease in cash and cash equivalents		**(118)**	(298)
Cash and cash equivalents at beginning of the year		**227**	525
Cash and cash equivalents at the end of the year	9,15	**109**	227

The accompanying notes on pages 32 to 46 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2008

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 have been prepared under the historical cost convention modified to include the fair values of financial assets at fair value through profit or loss.

Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (the 'SORP') is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP. The SORP is applicable for accounting periods beginning 1 January 2009 but early adoption is encouraged and the Company has chosen to adopt early.

The main impact of adopting the SORP has been the presentation of the income statement with income and costs being analysed between revenue and capital together with the restatement of reserves and some additional disclosures in the financial statements.

Investments in quoted Government Securities have been reclassified from cash equivalents due to the increased volatility in the gilt market during the year and as a consequence the failure to 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.

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 IAS1 '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 amendments to IFRS 1, IFRS 2, IFRS 3, IFRS 7, IFRS 8, IAS 14, IAS 23, IAS 27, IAS32 and IAS 39 and the issue of IFRICs 12 to 18. 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 or losses on investments held at fair value.

Quoted investments are valued at market bid prices.

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

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio, and their value to the Company lies in their marketable value as part of that portfolio, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', which give exemptions from equity accounting for venture capital organisations.

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.

Investments in quoted Government Securities have been reclassified from cash equivalents in the year as disclosed in the 'Basis of Preparation' note on page 32.

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. Expenses are charged through the revenue column of the Income Statement, except for fund management fees which are allocated in part to the capital column of the Income Statement, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains.

Tax relief is allocated to the capital reserve using a marginal rate basis.

Realised Capital Reserve

This reserve includes gains and losses compared to cost on the realisation of investments and expenses, together with the related taxation effect, charged to this reserve in accordance with the above policy. Also included are capital dividends paid to shareholders.

Unrealised Capital Reserve

This reserve includes increases and decreases in the valuation of investments held at fair value.

Special Reserve

The special reserve was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account. The special reserve is a distributable reserve and is available for other corporate purposes of the Company.

Taxation

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 274 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

	2008 £000	2007 £000
Income from investments:		
– Dividends from unquoted companies	**–**	54
– Dividends from AIM quoted companies	**10**	3
	10	57
– Interest on loans to unquoted companies	**111**	69
– Fixed interest Government securities	**258**	184
Income from investments held at fair value through profit or loss	**379**	310
Interest on bank deposits	**15**	29
	394	339

3. Administrative Expenses

	2008 £000	2007 £000
Fund management fee (including irrecoverable VAT to 30 September 2008)	**380**	404
VAT recoverable	**(164)**	–
Other expenses:		
Administration fee (including irrecoverable VAT)	**57**	56
Directors' remuneration	**59**	68
Auditors' remuneration:		
– audit fees	**17**	16
General expenses	**88**	73
	221	213

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.

3. Administrative Expenses (cont.)

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. The fund management fee is allocated between capital reserve and revenue account as described in note 1.
- 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. This fee is charged fully to the revenue account.

The total remuneration payable to YFM Private Equity Limited in the period (including VAT) was £437,000 (2007: £460,000).

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 25), 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.

Included with administrative expenses is the estimated refund due from HM Revenue & Customs following the ruling that management fees for venture capital trusts are to be exempt from VAT from 1 October 2008 and that claims can be back-dated for a period of up to three years where relevant. The claim has been submitted to HMR&C on the Company's behalf by its Fund Manager, YFM Private Equity Limited, with payment anticipated in due course. The estimated recovery has been allocated to the revenue and capital account on the same basis as the current year administration and fund management fees.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 25 under the heading "Basic Remuneration".

4. Taxation on Ordinary Activities

		2008			2007	
	Revenue £000	**Capital £000**	**Total £000**	Revenue (restated) £000	Capital (restated) £000	Total £000
Corporation tax payable at 21% (2007: 20%)	**–**	**–**	**–**	–	–	–
Profit (loss) on ordinary activities before taxation	**135**	**423**	**558**	25	(228)	(203)
Profit (loss) on ordinary activities multiplied by standard small company rate of corporation tax in UK of 21% (2007: 20%)	**28**	**89**	**117**	5	(46)	(41)
Effect of:						
UK dividends received	**(2)**	**–**	**(2)**	(11)	–	(11)
Non taxable profits on investments	**–**	**(126)**	**(126)**	–	(15)	(15)
Excess management expenses	**–**	**11**	**11**	6	61	67
Tax on profit on ordinary activities	**26**	**(26)**	**–**	–	–	–

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

Deferred tax assets of £315,000 calculated at 21% (2007: £290,000 calculated at 20%) in respect of unrelieved management expenses have not been recognised as management do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 274 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:

	2008			2007		
	Revenue £000	**Capital £000**	**Total £000**	Revenue (restated) £000	Capital (restated) £000	Total £000
Final dividend for the year ended 31 December 2007 of 1.5p (2006 year end: 2p) per share	**109**	**141**	**250**	25	307	332
Interim dividend for the year ended 31 December 2008 of 2p (2007: £nil) per share	**–**	**332**	**332**	–	–	–
Special interim dividend for the year ended 31 December 2008 of 2p (2007: 1.5p) per share	**–**	**333**	**333**	–	250	250
	109	**806**	**915**	25	557	582

The Special dividend of 2.0p accompanying the interim dividend of 2.0p was declared on 20 August 2008 and paid on 26 September 2008 to shareholders on the register on 29 August 2008.

A final dividend of 2.0p per Ordinary share in respect of the year to 31 December 2008, amounting to £333,000, is proposed. This dividend has not been recognised in the year ended 31 December 2008 as the obligation did not exist at the balance sheet date.

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per Ordinary share is based on the profit from ordinary activities after tax of £558,000 (2007 loss: £203,000) and 16,641,000 (2007: 16,641,000) shares being the weighted average number of shares in issue during the year.

The basic and diluted revenue return per Ordinary share is based on the profit from ordinary activities after tax of £109,000 (2007: £25,000) and 16,641,000 (2007: 16,641,000) shares being the weighted average number of shares in issue during the year.

The basic and diluted capital return per Ordinary share is based on the profit from ordinary activities after tax of £449,000 (2007 loss: £228,000) and 16,641,000 (2007: 16,641,000) 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 2008 or 31 December 2007. Consequently, basic and diluted earnings per share, basic and diluted revenue return per share and basic and diluted capital return per share are the same for the year ended 31 December 2008 and 31 December 2007.

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 2008 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	7,345	1,842	1,474	**10,661**	4,117	**14,778**
Opening unrealised (loss) gain	(1,471)	(623)	176	**(1,918)**	(7)	**(1,925)**
Opening fair value at 1 January 2008	**5,874**	**1,219**	**1,650**	**8,743**	**4,110**	**12,853**
Additions at cost	957	99	27	**1,083**	3,032	**4,115**
Disposal proceeds	(2,710)	(54)	–	**(2,764)**	(2,453)	**(5,217)**
Net profit realised on disposal	1,366	–	–	**1,366**	3	**1,369**
Changes in fair value in the year	(305)	(172)	(463)	**(940)**	172	**(768)**
Closing fair value at 31 December 2008	**5,182**	**1,092**	**1,214**	**7,488**	**4,864**	**12,352**
Closing cost	7,719	1,885	1,501	**11,105**	4,701	**15,806**
Closing unrealised (loss) gain	(2,537)	(793)	(287)	**(3,617)**	163	**(3,454)**
Closing fair value at 31 December 2008	**5,182**	**1,092**	**1,214**	**7,488**	**4,864**	**12,352**

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**

The total of fair value adjustments below cost made against unquoted investments during 31 December 2008 amounted to £793,000 (2007: £1,834,000). This includes no amounts written off such investments in 2008 or 2007 .

There have been no individual write downs during the year which exceeded 5% of the total assets of the Company (2007: none).

Fixed income securities are UK Government stocks and are classified as investments at fair value through profit or loss. Their use is as temporary holdings until venture capital investment opportunities arise.

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

The following disposals took place in the year:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2008 £000
Tekton Group Limited (Hallco 1389 and 1390)	126	50	86
Tamesis Limited (earn-out)	26	–	–
Sarian Systems Limited	2,605	928	1,305
RMS Group Holdings Limited	7	7	7
	2,764	**985**	**1,398**

Significant interests

At 31 December 2008 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
Waterfall Services Limited	Healthcare	25,000	Ordinary	6%	25%
Digital Healthcare Limited	Healthcare	2,408,774	Ordinary	25%	–
Ellfin Homecare Limited	Healthcare	15,916	Ordinary	4%	48%
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%

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 investment adviser or discretionary fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2008 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc £000	North West Business Investment Scheme £000	The Second HSBC (UK) Enterprise Fund LP £000	The Chandos Fund LP £000	Total £000	Total for this Company £000
Brulines plc	163	–	–	–	163	81
Cambridge Cognition Limited	325	–	–	–	325	240
Digital Healthcare Limited	–	–	–	–	–	3,072
DxS Limited	–	163	–	–	163	163
Ellfin Homecare Limited	769	828	–	1,657	3,254	296
Harvey Jones Limited	777	–	–	2,234	3,011	389
Patsystems plc	222	–	–	–	222	317
Pressure Technologies plc	425	–	–	–	425	300
Primal Pictures Limited	500	–	–	–	500	961
RMS Group Holdings Limited	1,032	–	–	1,442	2,474	401
Silistix Limited	–	726	–	–	726	1,006
Tissuemed Limited	–	–	100	–	100	48
Waterfall Services Limited	1,000	–	–	–	1,000	250

8. Trade and Other Receivables

	2008 £000	2007 £000
Amounts receivable within one year:		
Trade receivables	**336**	305
Prepayments and accrued income	**170**	205
Less: Allowances for credit losses on trade receivables	**(282)**	(282)
Other debtors	**164**	–
	388	228

	2008 £000	2007 £000
Allowances for credit losses on trade receivables:		
Allowances as at 1 January	**282**	230
Additions – charged to income statement	**–**	52
Allowances as at 31 December	**282**	282

Trade receivables are assessed for impairment when older than 90 days. As of 31 December 2008, trade receivables of £54,000 (2007: £23,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2008 £000	2007 £000
1–3 months	**31**	–
3–6 months	**5**	–
More than 6 months	**18**	23

As of 31 December 2008, trade receivables of £282,000 (2007: £282,000) were impaired and provided for. The ageing of these receivables is as follows:

	2008 £000	2007 £000
3–6 months	**–**	17
6–12 months	**–**	25
More than 12 months	**282**	240

The carrying amounts of the group's trade and other receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £388,000 (2007: £228,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2008 £000	2007 (restated) £000
Cash at bank	**109**	227

Investments in quoted Government Securities have been reclassified from cash equivalents in the year as disclosed in the 'Basis of Preparation' note on page 32.

10. Trade and Other Payables

	2008 £000	2007 £000
Amounts payable within one year:		
Other creditors	**55**	157

11. Called-up Share Capital

	2008		2007	
	Authorised £000	**Allotted, Called-up and Fully paid £000**	Authorised £000	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 25. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2. No shares have been issued to date under this arrangement.

12. Net Asset Value per Ordinary Share

The basic and diluted net asset value per Ordinary share is calculated on attributable assets of £12,794,000 (2007: £13,151,000) and 16,641,257 (2007: 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 2008 or 31 December 2007. Consequently, basic and diluted net asset value per Ordinary share are the same for the year ended 31 December 2008 and 31 December 2007.

13. Total Return per Ordinary Share

The Total return per share is calculated on cumulative dividends paid of 16.0 pence per Ordinary share (2007: 10.5 pence per Ordinary share) plus the net asset value as calculated per note 12.

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

	2008 £000	2007 £000
Profit (loss) on ordinary activities before taxation	**558**	(203)
Decrease in accruals	**(102)**	(7)
Increase in trade and other receivables	**(160)**	(29)
Gains on realisation of investments in the year	**(1,369)**	(1,501)
Losses on investments held at fair value	**768**	1,426
Net cash outflow from operating activities	**(305)**	(314)

Cash movements above include the following:

	2008 £000	2007 £000
Dividends received	**9**	57
Interest received		
– gilt interest	**250**	207
– deposit interest	**17**	29
Total interest	**267**	265

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2008 (restated) £000	Cash flow £000	Other non cash changes £000	**31 December 2008 £000**
Cash	227	(118)	–	**109**

Investments in quoted Government Securities have been reclassified from cash equivalents in the year as disclosed in the 'Basis of Preparation' note on page 32.

16. Financial Commitments

There were no investments (2007: 1 investment) approved by the Board of Directors at 31 December 2008, which have not been reflected in these accounts. Since the year end no further investments (2007: £150,000) have been approved by the Board.

17. Related Party Transactions

Mr Cammerman was the chairman of YFM Private Equity Limited, the Fund Manager to the Company until 3 April 2008. Mr Cammerman 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 VCT2 plc. At 31 December 2008 YFM Group's investment in Digital Healthcare was valued at £16,342 (2007: £37,500) and its investment in Primal Pictures Limited was valued at £25,428 (2007: £43,050).

Mr Last, from January 2008 Chairman of the Company, is a non-executive director of Patsystems plc. During the year Mr Last received £40,842 (2007: £27,500) from Patsystems plc in respect of his services. Mr Last holds a 0.4% equity stake in Patsystems plc.

Mr Pettigrew, a director of the Company, was a non-executive director of Digital Healthcare Limited until 31 December 2007. The appointment was made pursuant to an agreement following the investment made in that company. During the year Mr Pettigrew received £nil (2007: £12,500) from Digital Healthcare Limited in respect of his services. Mr Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.

Mr Cammerman a director of the Company, is a non-executive director of Pressure Technologies plc. The appointment was made 14 April 2008. During the year Mr Cammerman received £11,250 (2007: £nil) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.02% equity stake in Pressure Technologies plc.

18. Events after the Balance Sheet Date

There have been no significant events, including venture capital investments made, following the year end.

19. 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 13. 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.

19. Financial Instruments (cont.)

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

	2008		2007	
	Loans and receivables £000	**Assets at fair value through profit or loss £000**	Loans and receivables (restated) £000	Assets at fair value through profit of loss (restated) £000
Assets as per balance sheet				
Cash and cash equivalents	**109**	**–**	227	–
Trade receivables	**54**	**–**	23	–
Investments at fair value through profit and loss	**–**	**12,352**	–	12,853
	163	**12,352**	250	12,853
Other assets – not financial instruments	**334**	**–**	205	–
	497	**12,352**	455	12,853

Investments in quoted Government Securities have been reclassified from cash equivalents in the year as disclosed in the 'Basis of Preparation' note on page 32.

	2008 Other financial liabilities £000	2007 Other financial liabilities £000
Liabilities as per balance sheet		
Trade and other payables	**(55)**	(157)
	(55)	(157)

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 2008 and 31 December 2007, the financial investments, by value, comprised:

	2008		2007	
	£000	**%**	£000	%
Venture capital investments				
Ordinary shares	**5,915**	**46.2**	7,266	55.2
Loan stock	**1,092**	**8.5**	1,219	9.3
Preferred Ordinary Shares	**481**	**3.8**	258	2.0
	7,488	**58.5**	8,743	66.5
Fixed interest Government Securities	**4,864**	**38.0**	4,110	31.3
Cash at bank	**109**	**0.9**	227	1.7
Other financial assets	**54**	**0.4**	23	0.2
Other financial liabilities	**(55)**	**(0.4)**	(157)	(1.2)
	12,460	**97.4**	12,946	98.5
Other assets – not financial instruments	**334**	**2.6**	205	1.5
	12,794	**100.0**	13,151	100.0

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 on pages 43 to 45. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

19. Financial Instruments (cont.)

19a Market Risk

The Company invests in new and expanding technology businesses, 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 maximized 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 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. The Board seeks to invest in counter-cyclical stocks where these are identified.

19% of the Company's equity investments are traded on AIM (2007: 22%). A 5% increase in stock prices as at 31 December 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £61,000 (2007: £83,000). An equal change in the opposite direction would have decreased the net assets attributable to the company's shareholders and the total profit for the year by an equal amount.

81% of the Company's equity investments are in unquoted companies held at fair value (2007: 78%). The valuation methodology for these investments includes the application of an externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed. A 5% increase in the valuations of unquoted investments at 31 December 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £260,000 (2007: £294,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

The largest single concentration of risk relates to the Company's investment in Digital Healthcare which constitutes 16.5% (2007: 14.6%) 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 3.1% (2007: 3.5%) of the value of net assets.

19. Financial Instruments (cont.)

Interest rate Risk

The Company's venture capital investments include £1,092,000 (2007: £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 11% of its loan stock portfolio (2007: 10%). 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.

	2008			2007		
	£000	**Weighted average interest rate**	**Weighted average time for which rate is fixed Months**	£000	Weighted average interest rate	Weighted average time for which rate if fixed Months
Loan stock	**1,092**	**7.66%**	**36**	1,219	7.03%	39
Government Gilts	**4,864**	**5.09%**	**22**	4,110	5.20%	30
Combined	**5,956**	**5.77%**	**25**	5,329	5.64%	32

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 2008 the company had investments valued at £340,000 denominated in US dollars (2007: £552,000).

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 the total profit for the year by £34,000 (2007: £55,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit 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.

19b 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. The carrying amounts of financial assets, including loans at fair value through profit or loss, best represents 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 the changes in credit risk in either year.

19. 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 held by Teathers (from 1 April 2009 Singer Capital Markets), the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports on a regular basis.

The cash held by the Company is held across a number of banks to spread the risk. Bankruptcy or insolvency of these banks 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 and broker for the gilts. Should the credit quality or the financial position of the banks deteriorate significantly the Fund Manager or gilt manager will move the cash holdings to another bank.

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

		2008 £000			2007 £000	
	<1 year	**1-2 years**	**2-5 years**	<1 year	1-2 years	2-5 years
Unquoted loan investments	**–**	**148**	**944**	225	195	799

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

		2008 £000			2007 £000	
	1 month	**3-6 months**	**> 6 months**	1 month	3-6 months	> 6 months
Interest	**28**	**3**	**24**	6	4	13
Capital repayment	**–**	**–**	**–**	–	–	–

The past due interest in excess of one month overdue is in relation to one investment and in this case the interest, by agreement, is being added to the loan capital. In both 2008 and 2007, the loan balance to which the overdue interest relates was £148,000. There is also a related redemption premium of £64,000.

19c 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. There are no undrawn committed borrowing facilities at either year end.

19. Financial Instruments (cont.)

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 13. 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, reviewed for impairment – 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 – The appropriate sector FTSE multiples are used as a market-based indication of the enterprise value of an investment 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.

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

20. 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; and
- 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 2008 was £12.8 million (2007: 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 year. The Company is not subject to any externally imposed capital requirements.

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 2009 at 9.30 am for the following purposes:

To consider and, if thought fit, pass the following resolutions:

As Ordinary Business

Ordinary Resolutions

(1) That the Annual Report and Accounts for the year ended 31 December 2008 be received.

(2) That the Directors' Remuneration Report be approved.

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

(4) 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.

(5) That in substitution for any existing authorities pursuant to section 80 of the Companies Act 1985 ("the Act"):

5.1 the Directors shall have unconditional authority to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in section 80(2) of the Act) of the Company to such persons, at such time and generally on such terms and conditions as the Directors may determine. The authority hereby conferred shall expire on 12 May 2014, (unless previously renewed, varied or revoked by the Company in general meeting) and the maximum nominal value of such relevant securities as aforesaid which may be allotted pursuant to such authority shall be £3,336 being the authorised but unissued share capital of the Company at 31 December 2008;

5.2 the Directors shall be entitled under the authority conferred or under the renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly notwithstanding that the authority conferred by this resolution has expired.

As Special Business

Special Resolutions

(6) That subject to the passing of resolution (5) above and in substitution for any existing authorities pursuant to section 95 of the Companies Act 1985 ("the Act"):

6.1 the Directors be and that they are hereby empowered pursuant to section 95(1) of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred upon them by resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to the allotment of equity securities (as defined in Section 94(2) of the Act) each in capital of the Company up to 10 per cent of the issued Ordinary Share capital of the Company as at 31 December 2008, during the period commencing on the date of the passing of the resolution and ending on 12 May 2014 (unless previously revoked, extended or varied by the Company in general meeting) except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

(7) That the existing Articles of Association of the Company be deleted in their entirety and the new Articles of Association produced to the meeting and for the purpose of identification signed by the Chairman of the meeting be adopted in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

Notice of the Annual General Meeting

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
25 March 2009

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

NOTES

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

(2) 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, Proxies Department, PO Box 25, 34 Beckenham Road, Beckenham BR3 4BR 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 9.30 am on 11 May 2009, 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 they wish to do so.

(6) Biographical details concerning the Director retiring by rotation and offering himself for re-election can be found at page 14 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 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 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 2009 at 9.30 am

I/We .... being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note a)

....of

....as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 13 May 2009 at 9.30 am and at any adjournment thereof.

My/our proxy is to vote as indicated below.

ORDINARY RESOLUTIONS		FOR	AGAINST	WITHHELD
1.	To receive the Annual Report and Accounts	☐	☐	☐
2.	To approve the Directors' Remuneration Report	☐	☐	☐
3.	To re-elect as a Director Mr R M Pettigrew	☐	☐	☐
4.	To re-appoint PKF (UK) LLP as auditors	☐	☐	☐
5.	To authorise the Directors pursuant to Section 80 of the Companies Act 1985 to allot equity securities	☐	☐	☐
SPECIAL RESOLUTIONS				
6.	To authorise the Directors pursuant to Section 95 of the Companies Act 1985 to allot equity securities for cash without regard to pre-emption rights	☐	☐	☐
7.	To adopt new Articles of Association	☐	☐	☐

Signature .... Dated 2009

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 from(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.

(e) 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, PO Box 25, 34 Beckenham Road, Beckenham, BR3 4BR not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.

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

(g) 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.

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CAPITA REGISTRARS
PROXIES DEPARTMENT
PO BOX 25
34 BECKENHAM ROAD
BECKENHAM
BR3 4BR

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Financial History

	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005	Year ended 31 December 2004
Income	£394,000	£339,000	£220,000	£82,000	£77,000
Profit (loss) on ordinary activities before and after tax	£558,000	(£203,000)	£1,515,000	(£421,000)	£1,080,000
Earnings (loss) per ordinary share	3.35p	(1.22)p	9.0p	(5.14)p	13.79p
Total dividend per share paid and declared in the year	4.0p	3.0p	2.0p	2.0p	5.0p
Net assets	£12,794,000	£13,151,000	£13,936,000	£12,840,000	£7,606,000
Net asset value per share	76.9p	79.0p	83.7p	74.2p	97.1p
Total return per share	92.9p	89.5p	90.7p	81.2p	97.1p

The accounts were prepared under International Financial Reporting Standards in all years and the profit (loss) on ordinary activities before and after tax relates to the total return as calculated in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

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

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
Singer Capital Markets
One Hanover Street
London W1S 1AX

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

Independent Auditors
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Farringdon Place
20 Farringdon Road
London EC1M 3AP

VCT Status Adviser
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1 Embankment Place
London WC2N 6RH

Bankers
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27 Park Row
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SMALLER
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