British Smaller Technology Companies VCT 2 plc

Annual Report for the year ended 31 December 2009

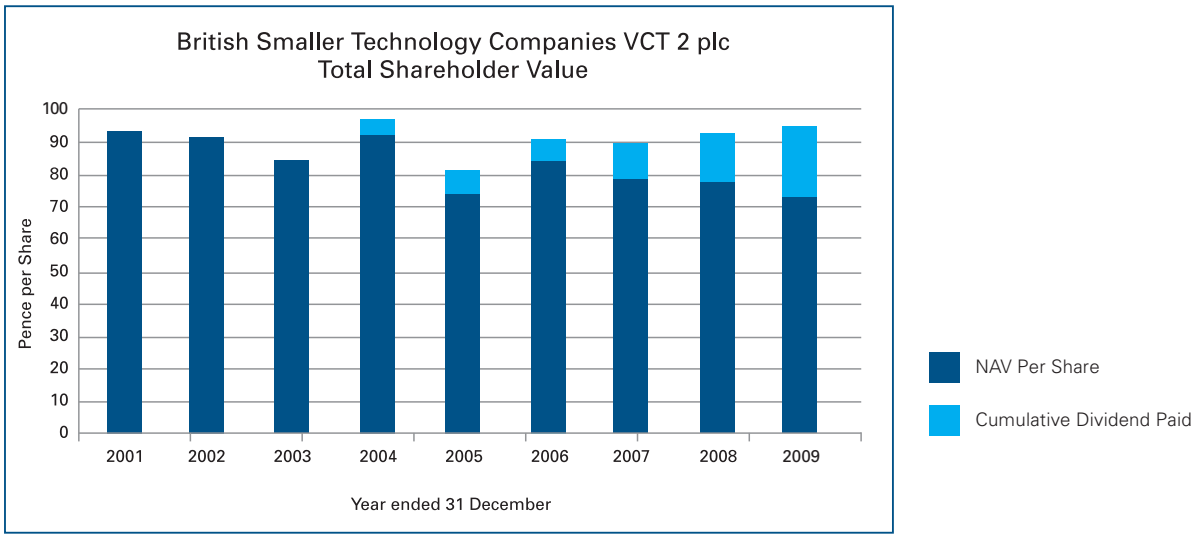
yfm private equity

Contents

Financial Summary

	2009	2008
Profit for the year	**£310,000**	£558,000
Dividend per share paid and proposed in respect of the year	**6.0p**	6.0p
Total cumulative dividends paid	**22.0p**	16.0p
Net asset value	**£12,106,000**	£12,794,000
Net asset value per share	**72.7p**	76.9p
Total return per share	**94.7p**	92.9p

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

Ex-dividend Date	28 April 2010	Record Date	30 April 2010
Results Announced	24 March 2010	Annual General Meeting	12 May 2010
Dividend Paid	21 May 2010		

Chairman's Statement

I am pleased to report that your Company has held its ground with an overall increase in total return (net asset value plus cumulative dividends) to 94.7 pence per share from 92.9 pence per share at 31 December 2008. After dividends the net asset value at 31 December 2009 was 72.7 pence per share (December 2008: 76.9 pence per share). This was achieved despite 2009 being an extremely challenging year, seeing the deepest recession since the 1930s.

Dividends paid in the year amounted to 6.0 pence per share (including a 2.0 pence interim and 2.0 pence special dividend declared following the successful realisation of DxS Limited) compared to 5.5 pence per share in 2008. Your Board is recommending that the level of dividends be maintained, and proposes a final dividend of 2.0 pence per share in respect of 2009. If approved, this dividend will be paid on 21 May 2010 to Shareholders on the register at 30 April 2010. The final dividend has not been recognised in the accounts as the contractual obligation did not exist at the balance sheet date.

Investment Portfolio

During the year the Company realised investments amounting to £2.62 million, the most significant being DxS Limited which generated proceeds of £1.97 million. Since the Fund's original investment in 2004, DxS developed from an early stage business with some interesting intellectual property to a leading provider of companion diagnostic products to international drug manufacturers. It was acquired by the pharmaceutical technologies group Qiagen for a headline price of $95 million in September 2009, resulting in a total profit on cost of £1.81 million and representing an uplift over its December 2008 value of £1.55 million.

The quoted investment in e-commerce software business ART Technologies Group (acquired on the sale of Amacis Limited in 2004) was also sold during the year for £0.64 million, giving an overall profit on cost of £0.36 million and profit on its December 2008 value of £0.30 million.

This year has also seen further progress made by a number of portfolio companies. A further investment of £209,000 was made into Silistix in April 2009 as part of a £1.5 million funding round to support the development of its advanced silicon chip development technology. A new investment of £500,000 was made as part of the £3.5 million buy-out of Deep-Secure Limited which provides advanced IT security solutions for defence and governmental bodies around the world.

Unfortunately the strong profits on disposal during the year were partially offset by overall valuation losses of £1.26 million (2008: £0.94 million) in respect of other portfolio investments, which is perhaps not unsurprising given the economic backdrop. This figure breaks down into losses of £1.39 million in respect of unquoted investments and a gain of £0.13 million in respect of AIM quoted investments. The biggest single reduction was Silistix (£0.79 million) where the Fund Manager considered it wise to take a prudent approach to the valuation given significant market uncertainty. With market conditions expected to gradually improve during 2010 there should be opportunities for value growth during the year ahead.

The portfolio also generated income during the year of £0.15 million (2008: £0.12 million) in the form of interest and dividend payments, resulting in a total portfolio return for the year of £0.61 million (2008: £0.72 million) before administrative fees.

In September 2009 The International Private Equity and Venture Capital Valuation Board issued revised guidelines on the valuation of unquoted investments in order to promote consistency with established and emerging International Financial Reporting Standards. These have been adopted by the Company in the current year and the Board has reviewed the methodologies applied in reaching appropriate valuations. Determining the value of an unquoted company requires information on earning multiples for comparable quoted companies and sectors, suitably adjusted for differences between the comparator company and the company being valued. Other investments are valued at the price of recent investment, reviewed for impairment. Quoted investments continue to be valued at bid price. A detailed explanation of the valuation policies of the Company is included on page 15, and sensitivities of the key judgements applied on page 46.

Financial Results

The result for the financial year ended 31 December 2009 was a pre-tax profit of £0.31 million which comprised profits in respect of capital and revenue of £0.23 million and £0.08 million respectively, as compared to pre-tax profit before taxation of £0.56 million in 2008 (which comprised a capital profit of £0.42 million and a revenue profit of £0.14 million).

The pre-tax profit for the year has been impacted by the apparent increase in administrative expenses from £0.44 million to £0.53 million. However this is as a result of the one-off VAT recovery of £0.2 million in 2008. Further reductions in operating costs have resulted from the exemption of management fees from VAT, effective from October 2008.

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

	Pence/share
31 December 2008	76.9
Dividends paid in year	(6.0)
Net increase in value	1.8
31 December 2009	72.7

Cash and gilt investments at the end of the year amounted to £5.69 million, representing 47% of net asset value. Further realisations will enhance cash reserves and enable distributions to Shareholders in the form of tax free dividends.

Shareholder Relations and Fundraising

Shareholders will be aware that, on 26 February 2010, your Board published proposals offering investors the opportunity to subscribe for up to 1,664,125 million new Ordinary shares in the Company at an offer price of 77.25 pence per share. These proposals were by way of two offers closing on 5 April 2010 and 30 April 2010 respectively.

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. With over 100 Shareholders, the workshop held in February 2010 at the Natural History Museum was well attended. Your Board remains committed to these events.

The Board also remains committed to the objective of achieving a consistent dividend stream. This policy has been continued with your Board proposing that a final dividend of 2.0 pence per share will be paid on 21 May 2010 to Shareholders on the register as at 30 April 2010.

For the benefit of Shareholders the Board will be recommending the reintroduction of a share buy-back policy, with an initial discount of 15% on Net Asset Value. It is the Board's intention that this be proposed at the Company's Annual General Meeting to be held on 12 May 2010.

The Annual General Meeting of the Company will be held at 10:00 am on 12 May 2010 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 49.

Other Matters

Your Board continues to monitor regulatory developments, in particular the proposed regulation in respect of Alternative Investment Fund Managers. This legislation is being derived by the EU and is currently being drafted for consideration during 2010 to take effect in 2012. This proposal is only in draft form but its implementation could impact the Company largely through an increase in regulatory costs. Your Company continues to support the activities of the Association of Investment Companies (AIC) in its consideration and review of these proposals.

The Finance Act 2009 set out a 50 per cent rate of income tax for higher earners, together with the restriction of tax reliefs available on pension contributions. As a result the tax free dividends paid by the Company as a VCT and the tax relief on contributions will become increasingly effective for individuals if utilised appropriately – for example after independent financial advice – as a component of any long-term investment plan.

Outlook

The portfolio has weathered a very tough year with many actions being taken to improve efficiency and enhance sales propositions. Overall investee companies remain well financed and with the economic picture expected to gradually improve through 2010 they should be well placed to take advantage. The Company will continue to support our investee companies where value growth opportunities exist.

The Board remains firmly of the opinion that the upcoming period is likely to present a number of investment opportunities, both for the existing portfolio businesses and for new investments. An increase in the quality of new investment opportunities under consideration over recent months also supports this view. It is with this in mind that the Board recently sought to increase investment capacity and will continue to consider fund raising options during the year ahead.

Richard Last
Chairman
23 March 2010

Portfolio valuation at 31 December 2009 and full history of realisations up to 31 December 2009

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost* £000	Realised Proceeds to Date £000	Investment Valuation at 31 December 2009 £000	Realised and Unrealised to Date £000
Current Investments							
Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	–	1,660	1,660
Primal Pictures Limited	Dec-05	London	Medical Instruments	961	–	895	895
Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	850	–	806	806
Deep-Secure Ltd	Dec-09	Reading	Software	500	–	500	500
Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	–	480	480
Waterfall Services Limited	Feb-07	Warrington	Services	250	–	391	391
Silistix Limited	Dec-03	Manchester	Electronics	1,215	–	310	310
Patsystems plc	Sep-07	London	Software	317	–	246	246
Harvey Jones Limited	May-07	London	Consumer Retail	389	–	230	230
Optos plc	Dec-05	Dunfermline	Medical Instruments	153	93	102	195
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	408	20	145	165
Ellfin Home Care Limited	Dec-07	Oldham	Services	296	–	108	108
Brulines plc	Oct-06	Stockton-on-Tees	Electronics	81	–	91	91
Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	68	68
Tissuemed Limited	Dec-05	Leeds	Consumer Retail	48	–	60	60
Solcom Limited	Dec-05	Ryde	Software	–	–	63	63
Cambridge Cognition Limited	May-02	Cambridge	Software	240	–	–	–
Oxis Energy Limited	Dec-05	Abingdon	Electronics	5	–	–	–
Intelligent Recordings Limited	Sep-08	Nottingham	Electronics	–	–	–	–
Casmir Limited	Dec-05	Salford	Software	–	–	–	–
				9,435	**113**	**6,155**	**6,268**
Full realisations to date				7,872	13,692	–	13,692
Total realised and unrealised to date				**17,307**	**13,805**	**6,155**	**19,960**

* 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.

Portfolio valuation at 31 December 2009 and full history of realisations up to 31 December 2009 (cont)

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost* £000	Realised Proceeds to Date £000	Investment Valuation at 31 December 2009 £000	Realised to Date £000	Realised Profit (loss) £000
Realised Investments								
DxS Ltd	Apr-04	Manchester	Healthcare	163	1,968	–	1,968	1,805
Sarian Systems Ltd	Dec-05	Ilkley	Telecoms	928	2,605	–	2,605	1,677
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	–	1,875	1,460
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	–	2,983	1,417
Vibration Technology Ltd	Mar-02	Glasgow	Industrial	1,061	2,328	–	2,328	1,267
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	638	–	638	363
Tamesis Ltd	Jul-01	London	Software	150	317	–	317	167
Voxar Ltd	Dec-05	Edinburgh	Software	–	134	–	134	134
Tekton Group Ltd	Dec-05	Manchester	Software	100	220	–	220	120
Arakis Ltd	Mar-04	Essex	Healthcare	14	108	–	108	94
Hallco 1390 Ltd	Dec-06	Manchester	Software	1	77	–	77	76
Oxonica plc	May-02	Oxford	Chemical	241	258	–	258	17
SoseiCo Ltd	Aug-05	Toyko, Japan	Healthcare	158	94	–	94	(64)
Sirus Pharmaceuticals Ltd	Sep-01	Cambridge	Healthcare	270	14	–	14	(256)
Infinite Data Storage Ltd**	Mar-02	Dunfermline	Software	425	–	–	–	(425)
Purely Proteins Ltd	Nov-03	Cambridge	Software	438	–	–	–	(438)
ExpressOn Biosystems Ltd**	Oct-02	Midlothian	Healthcare	450	–	–	–	(450)
Broadreach Networks Ltd**	Feb-03	London	Telecoms	550	17	–	17	(533)
Comvurgent Ltd**	Dec-05	Nottingham	Software	611	–	–	–	(611)
Hallco 1389 Ltd	Dec-06	Manchester	Software	49	49	–	49	–
Focus Solutions Group plc	Dec-05	Leamington Spa	Software	7	7	–	7	–
Elam-T Ltd**	Dec-05	London	Electronics	–	–	–	–	–
LANergy Ltd**	Dec-05	Newport	Telecoms	–	–	–	–	–
Sigtronics Ltd**	Dec-05	Livingston	Electronics	–	–	–	–	–
Weston Antennas Ltd**	Dec-05	Dorchester	Telecoms	–	–	–	–	–
Total realised to date				**7,872**	**13,692**	**–**	**13,692**	**5,820**

* 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.

** In Receivership

Investment Portfolio by current value as at 31 December 2009

This section describes the business of the active companies in the portfolio, in order of valuation at 31 December 2009 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:	£1,660,000
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	**2008 £million**	2007 £million
Sales	**2.87**	2.15
Loss before tax	**(1.71)**	(1.52)
Retained losses	**(5.36)**	(3.88)
Net assets	**0.13**	1.59

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. It continues to develop its market share in both the UK and US.

Primal Pictures Limited

London
www.primalpictures.com

Cost:	£961,422
Valuation:	£895,000
Date of Investment:	December 2005
Equity held:	16.36%
Valuation basis:	Earnings multiple

Year ended 31 December	**2008 £million**	2007 £million
Sales	**2.54**	2.15
Profit before tax	**0.30**	0.01
Retained losses	**(4.76)**	(5.31)
Net liabilities	**(1.38)**	(1.93)

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. Images derived from X-ray, magnetic resonance and other scan data have enabled the production of a completely authentic anatomical model of the human body. The company has significantly expanded its business development activities to a range of healthcare and education markets, also developing recurring license revenues from reseller partners.

Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£850,000
Valuation:	£806,000
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	**2008 £million**	2007 £million
Sales	**–**	–
Loss before tax	**(1.55)**	(1.11)
Retained losses	**(3.92)**	(2.57)
Net assets	**0.29**	0.17

Immunobiology is developing new methods of producing high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. Progress is being made in partnership with various healthcare institutions and universities to prove the advantages of this new technology and gain regulatory clearances to begin human trials.

Deep-Secure Ltd

Reading
www.deep-secure.com

Cost:	£500,000
Valuation:	£500,000
Dates of Investment:	December 2009
Equity held:	6.43%
Valuation basis:	Price of recent investment, reviewed for impairment
Interest:	£1,627

The first set of audited financial statements for Deep-Secure Ltd is not yet due.

Deep-Secure's market leading products protect against threats to security via high defence network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost:	£300,290
Valuation:	£480,000
Dates of Investment:	June 2007 & May 2008
Equity held:	1.77%
Valuation basis:	Quoted bid price
Dividends received:	£12,406 (2008: £4,002)

Year ended 3 October	**2009 £million**	2008 £million
Sales	**26.19**	23.66
Profit before tax	**5.05**	5.05
Retained profits	**8.21**	5.26
Net assets	**14.11**	11.17

Pressure Technologies was admitted to the Alternative Investment Market in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying into other sectors. Results for the year to 3 October 2009 show turnover up 10.7% on the previous year.

Waterfall Services Limited
(formerly Caterplus Services Ltd)

Warrington
www.caterplus.co.uk

Cost:	£250,129
Valuation:	£391,000
Dates of Investment:	February 2007 & June 2008
Equity held:	4.61%
Valuation basis:	Earnings multiple
Dividends received:	£8,750 (2008: £nil)
Interest:	£13,315 (2008: £13,370)

Year ended 31 March	**2009 £million**	2008 £million
Sales	**28.41**	11.07
Profit before tax	**0.44**	0.27
Retained profits	**0.33**	0.14
Net assets	**1.10**	0.52

Waterfall is a contract caterer specialising in the care home sector. Since the original investment the company has expanded its original catering services business from the supply of residential and care homes to the educational market. There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding services provided to the education sector.

Silistix Limited

Manchester
www.silistix.com

Cost:	£1,214,679
Valuation:	£310,000
Dates of Investment:	December 2003, October 2004, December 2005, July 2006 & January 2007, January, August & November 2008, April 2009
Equity held:	9.65%
Valuation basis:	Price of recent investment, reviewed for impairment

12 months ended 31 December 2008
(2007: 14 months ended 31 December 2007)

	2008 £million	2007 £million
Sales	**–**	–
Loss before tax	**(2.83)**	(2.61)
Retained losses	**(8.64)**	(5.94)
Net liabilities	**(5.52)**	(2.82)

Silistix is a spin-out from the University of Manchester producing a self-timed silicon chip to deliver easier and faster chip design and reduced energy consumption. The company is developing its products in response to specific customer developments and expects to sign license deals soon.

Patsystems plc

London
www.patsystems.com

Cost:	£317,145
Valuation:	£246,000
Dates of Investment:	September 2007 & March 2008
Equity held:	0.63%
Valuation basis:	Quoted bid price
Dividends received:	£4,480 (2008: £3,941)

Year ended 31 December	**2009 £million**	2008 £million
Sales	**22.10**	19.63
Profit before tax	**4.49**	2.07
Retained losses	**(3.70)**	(6.47)
Net assets	**23.51**	20.05

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.

Harvey Jones Limited

London
www.harveyjones.com

Cost:	£388,571
Valuation:	£230,000
Date of Investment:	May 2007
Equity held:	3.44%
Valuation basis:	Earnings multiple
Interest:	£34,971 (2008: £34,828)

Year ended 31 December	**2008 £million**	2007 £million
Sales	**9.59**	6.88
Profit before tax	**0.20**	0.68
Retained profits	**0.33**	0.29
Net assets	**0.89**	0.85

Harvey Jones is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and wealthy provincial towns principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores to be well positioned to benefit as market conditions improve.

Optos plc

Dunfermline
www.optos.com

Cost:	£114,809
Valuation:	£102,000
Date of Investment:	December 2005 & February 2007
Equity held:	0.16%
Valuation basis:	Quoted bid price

Year ended 30 September	**2009 $million**	2008 $million
Sales	**97.16**	100.81
(Loss) profit before tax	**(3.82)**	5.89
Retained losses	**(59.96)**	(54.43)
Net assets	**58.66**	63.93

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.

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost	£388,544
Valuation	£145,000
Dates of investment	July 2007 & June 2008
Equity held	3.43%
Valuation basis	Earnings multiple
Interest	£38,484 (2008: £36,705)

12 months ended 31 December 2008
(2007: 5 months to 31 December 2007)

	2008 £million	2007 (restated) £million
Sales	**31.40**	13.40
Profit before tax	**–**	0.10
Retained losses	**(0.40)**	(0.02)
Net assets	**5.16**	5.53

RMS operates from six sites on the Humber estuary handling around 2 million tonnes of cargo a year. RMS has continued to broaden its range of customer service and expand its operations along the Humber estuary. Whilst dependent on overall commodity movements the financing structure has been defensively constructed and the team have used the tough economic conditions to consolidate their market position.

Ellfin Home Care Limited

Oldham

Cost:	£296,000
Valuation:	£108,000
Dates of Investment:	December 2007,October 2008
Equity held:	4.38%
Valuation basis:	Earnings multiple
Dividends received:	£858 (2008: £nil)
Interest:	£22,772 (2008: £11,998)

11 months ended 31 October	**2008 £million**
Retained losses	**(0.21)**
Net assets	**0.36**

Ellfin Home Care has a small company exemption from filing full audited financial statements at Companies House.

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 five year period. To date two acquisitions have been completed and the management team continue to look for other suitable targets.

Brulines plc

Stockton-on-Tees
www.brulines.com

Cost:	£81,180
Valuation:	£91,000
Date of Investment:	October 2006
Equity held:	0.24%
Valuation basis:	Quoted bid price
Dividends received:	£3,531 (2008: £2,343)

Year ended 31 March	**2009 £million**	2008 £million
Sales	**19.07**	17.06
Profit before tax	**4.62**	4.17
Retained profits	**6.50**	4.26
Net assets	**20.06**	13.26

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.

Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost:	£350,254
Valuation:	£68,000
Dates of Investment:	October 2004, April 2005 & February 2007
Equity held:	0.16%
Valuation basis:	Quoted bid price

Year ended 30 June	**2009 £million**	2008 £million
Sales	**37.76**	31.02
Loss before tax	**(11.44)**	(20.24)
Retained losses	**(97.02)**	(85.25)
Net liabilities	**(23.18)**	(11.29)

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.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost:	£47,539
Valuation:	£60,000
Dates of Investment:	December 2005 & March 2007
Equity held:	1.68%
Valuation basis:	Price of recent investment, reviewed for impairment

Year ended 31 March	**2009 £million**	2008 £million
Retained losses	**(15.40)**	(14.26)
Net assets	**1.24**	2.13

Tissuemed Limited has a small company exemption from filing full audited financial statements at Companies House.

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.

Solcom Limited

Ryde
www.solcom.com

Cost:	£nil
Valuation:	£63,000
Date of Investment:	December 2005
Equity held:	14.87%
Valuation basis:	Earnings multiple

Year ended 30 June	**2009 £million**	2008 £million
Retained losses	**(0.70)**	(0.65)
Net assets	**0.25**	0.35

Solcom Limited has a small company exemption from filing full audited financial statements at Companies House.

Solcom provides consulting services for real-time data acquisition and software for radio-isotope handling systems and other highly regulated production processes.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost:	£240,000
Valuation:	£nil
Date of Investment:	May 2002
Equity held:	2.85%
Valuation basis:	Price of recent investment, reviewed for impairment and supported third party investment

Year ended 31 December	**2008 £million**	2007 £million
Sales	**2.14**	1.99
Loss before tax	**(1.09)**	(0.96)
Retained losses	**(6.39)**	(5.30)
Net (liabilities) assets	**(0.28)**	0.62

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.

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 in spite of tough market conditions. These include a repositioning of Primal Pictures as a provider of education materials rather than a reference source, progress towards the commencement of clinical trials for Immunobiology's new vaccine technology and further expansion of Waterfall Services into both the education and care home markets. Digital Healthcare has continued to expand in the UK and improve its model for rolling out services in North America.

The sale of DxS to Qiagen during the year enabled the Company to achieve a significant profit over cost and carrying value, capitalising on the strong growth reported to you previously.

Cash and gilt investments at 31 December 2009 were £5.69 million representing 47% of net assets. This compares to £4.97 million (39% of net assets) at 31 December 2008. The realisation of DxS Limited in the second half of the year enabled the payment of a special dividend of 2.0 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 2010.

Portfolio Overview

Portfolio Performance

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. There is limited financial gearing across the portfolio businesses and in the main businesses are well funded going into 2010. We have seen some progress through increases in earnings from a number of investments in spite of the global recession.

The big valuation movement in the year related to Silistix, where a fall of £794,000 was experienced following a prudent approach to valuation given current uncertainty over which technologies will ultimately succeed in this rapidly changing sector. A £453,000 fall was also experienced at Digital Healthcare following some difficulties in breaking into the US market although recent signs are encouraging. Conversely a £319,000 value increase was seen at Primal Pictures with profits continuing to grow and a strategic repositioning of the business as an education provider.

There has been an overall reduction in the value of the quoted and unquoted portfolio of £1.26 million, equivalent to 17.0% of the value. However, overall realised gains plus unrealised valuations still exceed original cost by £2.65 million.

This decrease is split between the quoted and unquoted portfolio as follows:

	£000	%
Unquoted	(1,387)	(21.2)
Quoted	125	14.5

In accordance with the new requirements of IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. This indicated that a 10% decrease in the discounts applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £556,000. An equal change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by £498,000. Further information is given in note 19a.

Investment Activity

During the year investments were made in two companies. A further investment was made into Silistix to progress customer discussions towards the signing of license deals. The new investment into Deep-Secure enabled us to back a strong team who we have worked with before in a sector which should now see significant growth.

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. Although it has been difficult to find good investment opportunities during 2009, there are encouraging signs that this position is starting to change with Deep-Secure being a good example.

It is encouraging that there has not been a significant need for further funding into the portfolio during the economic downturn. We will continue to invest into the portfolio to fund value growth and support commercialisation of technology.

Realisations

In September 2009, the Company sold its entire holding in DxS Limited. It was acquired by Qiagen for a headline consideration of $95 million which resulted in sale proceeds to the Company of £1.97 million. This compared to a carrying value at 31 December 2008 of £0.42 million and an original cost of £0.16 million. There are various deferred payments which may be received relating to this deal. The associated value of these is estimated at £214,000 and is held within non-current assets on the Balance Sheet.

In September and October 2009, the Company sold its entire quoted shareholding in Art Technology Group Inc, resulting in sale proceeds of £0.64 million. This compared to a carrying value at 31 December 2008 of £0.34 million and an original cost of £0.28 million.

In addition, the Company received proceeds of £2,838 as a result of the disposal of the residual investment in Oxonica plc.

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 seen extremely challenging market conditions for the entire portfolio. We have been actively supporting the investee companies through these challenges and have again achieved disposals above the carrying values. The Company's cash reserves remain strong even after taking account of the special dividend paid in the year.

We are optimistic that 2010 will see gradually improving market conditions for the portfolio as well as generating some good opportunities for new investment. The Company remains well placed to meet the upcoming investment needs.

David Hall
YFM Private Equity Limited
23 March 2010

Valuation of Investments

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 ("the 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 adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply impairment to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.

- **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. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.

- **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 active market bid price.

Directors

Richard Last – Chairman (52)

Is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors, and is Chairman and non-executive director of Patsystems plc and Arcontech Group plc (both financial software businesses listed on AIM). He is also a non-executive director of Lighthouse Group plc and of Corero Group plc, both AIM listed, and of British Smaller Companies VCT plc which is listed on the London Stock Exchange. In addition he is also a director and shareholder of a number of private companies including the IT companies Sphinx CST Limited and APD Communications Limited. He is non-executive Chairman of CSE Global UK Limited, a subsidiary of a Singapore Stock Exchange listed company

Philip Simon Cammerman (67)

Has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK. He has spent the last 25 years in the venture capital industry and was chairman of YFM Private Equity Limited and a director of YFM Group (Holdings) 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 Pressure Technologies plc. He has been a director of the Company since its establishment as a venture capital trust.

Robert Martin Pettigrew (65)

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 boards of a number of technology companies, including Sphere Medical Limited, Timberpost Limited, Xeros Ltd 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 2009

The directors present their report and audited accounts of British Smaller Technology Companies VCT 2 plc ("the Company") for the year ended 31 December 2009.

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.

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 they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains. As such one of the key performance indicators monitored by the Company is the compliance with legislative tests. See below for more detail.

Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority, International Financial Reporting 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 and monitoring progress and compliance. The key performance indicators on page 18 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 Financial Reporting Council – Revised Internal Control: Guidance for Directors on the Combined Code. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 21 to 24.

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 highlights 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 Statement of Comprehensive Income is set out on page 29.

The profit before and after taxation for the year amounted to £310,000 (2008: £558,000).

The revenue return for the year amounted to £70,000 (2008: £109,000). The capital return for the year amounted to £240,000 (2008: £449,000).

The directors recommend the payment of a final dividend of 2.0p (2008: 2.0p). A resolution to this effect will be proposed at the Annual General Meeting to be held on 12 May 2010.

The net asset value per Ordinary share at 31 December 2009 was 72.7p (2008: 76.9p). The transfer to and from reserves is given in the Statement of Changes in Shareholders Equity on page 31.

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. For the benefit of Shareholders the Board now recommends the reintroduction of a share buy-back policy, with an initial discount of 15% on Net Asset Value. It is the Board's intention that this be proposed at the Company's Annual General Meeting to be held on 12 May 2010.

Capital Disclosures

The following information has been disclosed in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008:

- the Company's capital structure is summarised in note 11 and note 20. Each Ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme. Details of the performance-related incentive scheme with The YFM Private Equity Limited Trust is given in the Directors' Remuneration Report;
- the rules concerning the appointment and replacement of Directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

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 20 (2008: 26).

Fund Manager

The Board is considering a draft European Union directive concerning hedge fund and private equity fund managers which is currently at the consultation stage. Insofar as the proposals affect the Company the directors will report further once the impact of the proposals is known.

Environment

The management and administration of the Company is undertaken by the Fund 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 2009, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 26 to 27.

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

Independent Auditors

During the year PKF (UK) LLP resigned as auditors to the Company, and the directors appointed Grant Thornton UK LLP to fill the casual vacancy. Grant Thornton UK LLP have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 49 of these financial statements.

The Ordinary business of the meeting includes a resolution to appoint, as the Company's registered auditors, Grant Thornton UK LLP.

As Special business an Ordinary resolution will be proposed in accordance with the Company's Articles of Association that the Company continue in being as a Venture Capital Trust. If passed a further such resolution will be proposed at the Annual General Meeting to be held in 2015.

In addition a Special resolution will be proposed so as to authorise the Board to reintroduce a share buy-back policy, the purpose of which will be to provide shareholders with an increased measure of liquidity. Under this policy the Company will make market purchases of its own shares up to a maximum number of shares equivalent to 14.99% of total Shares in issue as at 31 December 2009. Subject to Shareholder approval, the Board intends to operate a policy of purchasing shares that become available in the market at a price equivalent to the

Company's most recently published net asset value less a discount of 15%. Under the Listing Rules the minimum price that the Company may pay for each share is 10p, its nominal value, and the maximum price is an amount not more than 5% above the average middle market price of the Shares taken from the Official List of the UK Listing Authority for the five business days immediately preceding the day on which the shares are contracted to be purchased.

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

On 1 March 2010 the Company invested £0.15 million in Silistix Limited, a company developing silicon chip technology.

On 25 February 2010 your Board published proposals offering investors the opportunity to subscribe for up to 1,664,125 million new Ordinary shares in the Company at an offer price of 77.25 pence per share. These proposals were by way of two offers closing on 05 April 2010 and 30 April 2010 respectively.

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 (IFRSs) as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate 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 2006. 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, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the business review included within the Chairman's Statement, Fund Manager's Review and 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 2008 (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.

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 quarterly 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 16.

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.

The Board is actively considering the implications of new Listing Rules concerning directors' independence which will take effect in September 2010 and which may affect the composition of the Board. The Directors will report further to Shareholders in due course.

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 16 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, Mr P S Cammerman and Mr R Last (all of whom retire by virtue of service for more than nine years) at this year's AGM, because of their commitment, experience and continued contribution to the Company.

Meetings and Committees

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

The table below details the number of Board and Audit Committee meetings attended by each director. During the year there were six formal Board meetings, two Audit Committee meetings and no Nomination Committee meetings. The directors met via telephone conferences on eight other occasions.

Director	Telephone conference	Board meetings attended	Audit Committee meetings attended
R Last	8	6	2
P S Cammerman	6	6	2
R M Pettigrew	8	6	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.

The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that they continue to show commitment to the role. 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.

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 26 and 27. 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 and P S Cammerman 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.

Nominations Committee

The Company has a Nominations Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager. The Chairman of the Board acts as Chairman of the Committee.

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, 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 16.

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 16. 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; and
- 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, *Financial Reporting Council – Revised Internal Control: Guidance for Directors on the Combined Code* ("the Guidance"), were in place throughout the year ended 31 December 2009 and up to the date of this report.

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

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

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 an investee company's performance in accordance with best practice in the private equity sector.

Going Concern

The Company's business activities, liquidity position and factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Fund Manager's Review. In addition notes 19 and 20 describe the Company's objectives, policies and processes for managing capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit and liquidity risk.

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. The directors believe these factors have placed the Company in a strong position to take advantage of new investment opportunities despite the uncertain economic outlook and thus are seeking to increase investment capacity through further fundraising in the coming months.

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient 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 of accounting 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 £509,000 (2008: £537,000). Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this annual report.

The Fund Manager, YFM Private Equity Limited, is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out as necessary and Inland Revenue clearance is obtained for approval as a qualifying VCT investment.

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

The Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from YFM Private Equity Limited as to the trading and financial position of each investee company and members of the investment team regularly attend Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can ensure that the status of the Company is maintained and take corrective action where appropriate.

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

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to YFM Private Equity Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities. Reporting to YFM Private Equity Limited, the fund is managed by Prime Rate Capital LLP. The Board receives regular reports on the diversity and return of the fund's portfolio. At the year end £2,100,000 was held in this fund which is included within Cash and Cash Equivalents on the balance sheet.

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 15 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 2009 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 23 March 2010 and signed on its behalf by

Richard Last
Chairman

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 2009 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 2009	31 December 2008
P S Cammerman	**22,115**	22,115
R Last	**23,925**	23,925
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 16. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves office.

The Company had no employees in either year.

Administration

YFM Private Equity Limited has acted as Fund Manager and performed administrative and secretarial duties for the Company since 28 November 2000. The principal terms of the agreement are set out in note 3 to the financial statements. YFM Private Equity Limited is authorised and regulated by the Financial Services Authority.

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 2009 or 2008 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 £67,500 (2008: £59,315) all of which was paid to three (2008: four) individuals for services as directors and none of which was paid to third parties in respect of directors services.

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

	2009	2008
	£	£
P S Cammerman	18,000	12,552
R Last	31,500	23,087
S J Noar (resigned 30 June 2008)	–	7,338
R M Pettigrew	18,000	16,338
	67,500	59,315

There are no executive directors (2008: none).

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.

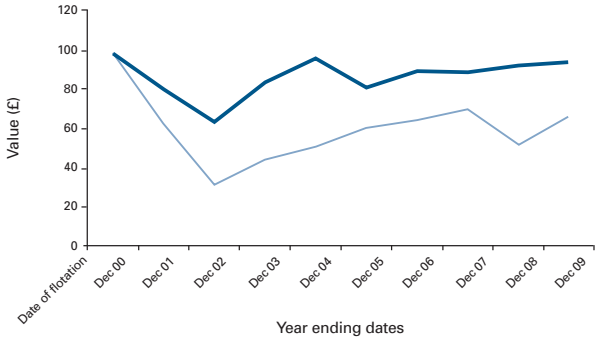
Performance Graphs

The graphs opposite show a comparison between the Company's total Shareholder return compared with the companies in the FTSE™ techMARK™ All-Share Index from the date of flotation to 31 December 2009. The directors consider this to be the most appropriate published index on which to report on comparative performance given the focus of your Company's investments are invariably in relatively early stage unquoted companies.

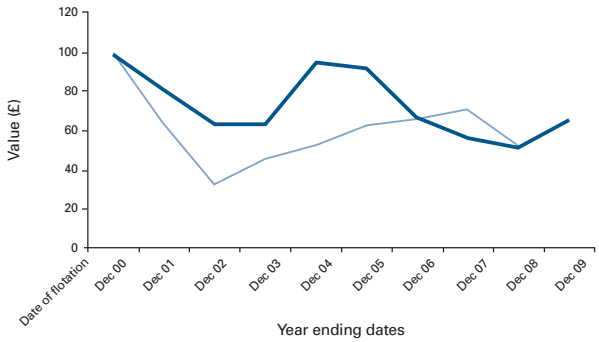
The first graph looks at the value, calculated by reference to the net asset value and cumulative dividends paid (note 13) of £100 invested in the Company's shares, excluding tax relief received on this investment, with the value of £100 invested in the FTSE™ techMARK™ All-Share Index over the same period.

The second graph displays the share price return from the date of flotation to 31 December 2009 compared to the FTSE™ techMARK™ All-Share Index. It shows that at 31 December 2009 a hypothetical £100 invested in the Company at the time of its listing on the London Stock Exchange would have generated a total return of £66, which is in line with the total return that would have been achieved if invested in FTSE™ techMARK™ All-Share Index. This assumes that at the time of flotation the tax relief given on the £100 investment was also invested in shares of the Company. Therefore this graph shows the share price return based on the initial investment of £100 purchasing 125 shares at £0.80 each, rather than 100 shares at £1.00 each.

Net Asset Value Return



Share Price Return



British Smaller Companies VCT plc
FTSE All-Share®

This report was approved by the Board on 23 March 2010 and signed on its behalf.

Richard Last
Chairman

Independent Auditor's Report

To the Members of British Smaller Technology Companies VCT 2 plc

We have audited the financial statements of British Smaller Technology Companies VCT 2 plc for the year ended 31 December 2009, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 24, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Craig Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
23 March 2010

Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 Revenue £000	2009 Capital £000	2009 Total £000	2008 Revenue £000	2008 Capital £000	2008 Total £000
Gain on realisation of investments	7	**–**	**1,793**	**1,793**	–	1,369	1,369
Losses on investments held at fair value	7	**–**	**(1,326)**	**(1,326)**	–	(768)	(768)
Income	2	**372**	**–**	**372**	394	–	394
Administrative expenses:							
Fund Management fee		**(79)**	**(238)**	**(317)**	(95)	(285)	(380)
VAT recovery		**–**	**–**	**–**	57	107	164
Other expenses		**(212)**	**–**	**(212)**	(221)	–	(221)
	3	**(291)**	**(238)**	**(529)**	(259)	(178)	(437)
Profit before taxation		**81**	**229**	**310**	135	423	558
Taxation	4	**(11)**	**11**	**–**	(26)	26	–
Profit for the year attributable to equity Shareholders		**70**	**240**	**310**	109	449	558
Total comprehensive income for the year attributable to equity Shareholders		**70**	**240**	**310**	109	449	558
Basic and diluted earnings per Ordinary share	6	**0.42p**	**1.44p**	**1.86p**	0.65p	2.70p	3.35p

The accompanying notes on pages 33 to 48 are an integral part of these financial statements.

The total column of this statement represents the Company's Statement of Comprehensive Income, 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 2009

	Notes	2009 £000	2008 £000
Assets			
Non-current assets			
Investments		**6,155**	7,488
Fixed income government securities		**3,382**	4,864
Financial assets at fair value through profit or loss	7	**9,537**	12,352
Trade and other receivables	8	**214**	–
		9,751	12,352
Current assets			
Trade and other receivables	8	**192**	388
Cash and cash equivalents	9	**2,304**	109
		2,496	497
Liabilities			
Current liabilities			
Trade and other payables	10	**(141)**	(55)
Net current assets		**2,355**	442
Net assets		**12,106**	12,794
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		**4,442**	3,497
Unrealised capital reserve		**(4,802)**	(3,169)
Special reserve		**4,786**	4,786
Revenue reserve		**332**	332
Total Shareholders' equity		**12,106**	12,794
Net asset value per Ordinary share	12	**72.7p**	76.9p

The accompanying notes on pages 33 to 48 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 23 March 2010.

Richard Last
Chairman

Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital £000	Share premium account £000	Merger reserve £000	*Other reserves £000	Realised capital reserve £000	Unrealised capital reserve £000	Special reserve £000	Revenue reserve £000	Total equity £000
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 investments in the year	*–*	*–*	*–*	*–*	*1,369*	*–*	*–*	*–*	*1,369*
Total comprehensive income for the year	–	–	–	–	1,665	(1,216)	–	109	558
Realisation of prior year unrealised gains	–	–	–	–	414	(414)	–	–	–
Dividends	–	–	–	–	(806)	–	–	(109)	(915)
Balance at 31 December 2008	**1,664**	**69**	**5,525**	**90**	**3,497**	**(3,169)**	**4,786**	**332**	**12,794**
Revenue return for the year	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*70*	*70*
Capital expenses	*–*	*–*	*–*	*–*	*(227)*	*–*	*–*	*–*	*(227)*
Unrealised loss on investments held at fair value	*–*	*–*	*–*	*–*	*–*	*(1,326)*	*–*	*–*	*(1,326)*
Realisation of investments in the year	*–*	*–*	*–*	*–*	*1,793*	*–*	*–*	*–*	*1,793*
Total comprehensive income for the year	–	–	–	–	1,566	(1,326)	–	70	310
Realisation of prior year unrealised gains	–	–	–	–	307	(307)	–	–	–
Dividends	–	–	–	–	(928)	–	–	(70)	(998)
Balance at 31 December 2009	**1,664**	**69**	**5,525**	**90**	**4,442**	**(4,802)**	**4,786**	**332**	**12,106**

The accompanying notes on pages 33 to 48 are an integral part of these financial statements.

*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 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.

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 £9,560,000 (2008: £8,615,000) representing an increase of £945,000 (2008: £1,273,000 increase) during the year. This change arises from the profit in the year of £310,000 (2008: £558,000 profit), movements in the unrealised capital reserve of £1,633,000 (2008: £1,630,000) and dividends of £998,000 (2008: £915,000). The directors also take into account the level of the unrealised capital reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Net cash inflow (outflow) from operating activities	14	**125**	(305)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(1,175)**	(4,115)
Proceeds from sale of financial assets at fair value through profit or loss	7	**4,243**	5,217
Net cash from investing activities		**3,068**	1,102
Cash flows used in financing activities			
Dividends paid		**(998)**	(915)
Net cash used in financing activities		**(998)**	(915)
Net increase (decrease) in cash and cash equivalents		**2,195**	(118)
Cash and cash equivalents at beginning of the year		**109**	227
Cash and cash equivalents at the end of the year	9,15	**2,304**	109

The accompanying notes on pages 33 to 48 are an integral part of these financial statements.

For the year ended 31 December 2009

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 (IFRSs), as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the measurement of investments and quoted Government Securities 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 (SORP) is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. The following new standards and amendments to standards are mandatory for the first time for the financial year commencing 1 January 2009.

IAS 1 (revised) 'Presentation of Financial Statements'. The Company has elected to present a single performance statement: the Statement of Comprehensive Income. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

IFRS 8 'Operating Segments'. The adoption of this standard has had no impact on the segmental information reported by the Company.

Other standards and interpretations which are effective for this financial period but are not currently relevant for the Company are IFRS 2 (amendment), IAS 23, IAS 32, IAS 39 and IFRICs 13 to 16.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been early adopted in these financial statements. These include amendments to IFRS 1, IFRS 2, IFRS 3, IFRS 5, IAS 1, IAS 24, IAS 27, IAS 32, IAS 38, IAS 39, IFRIC 14, and the issue of IFRS 9, IFRIC 9, IFRIC 17, IFRIC 18 and IFRIC 19. 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 (IPEVC) Valuation Guidelines issued in September 2009. The investment valuations in the financial statements for the year ended 31 December 2008 were made in accordance with IAS 39 and the IPEVC guidelines issued in October 2006. The updates to the IPEVC consist of clarifications and expanded guidance therefore application of the revised guidelines as at 31 December 2008 would not have resulted in significant changes to the investment valuations at that date. A detailed explanation of the valuation policies of the Company is included on page 15.

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, the Company does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Investments in quoted Government Securities are classified at fair value through profit or loss as they do not 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.

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis using the effective interest rate over the life of the financial instrument. Income which is not likely to be received within a reasonable period of time is reflected in the capital value of the investment.

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. Of these fees 75 per cent are instead allocated 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.

Cash and Cash Equivalents

Cash and cash equivalents includes cash at hand and investments in high quality AAA rated liquidity funds. These funds are classified under cash equivalents as they meet the definition in IAS 7 'Cash flow statements' of a short-term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

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, allocated 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 in May 2003 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 through profit or loss for the year.

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

	2009 £000	2008 £000
Income from investments:		
– Dividends from unquoted companies	**10**	–
– Dividends from AIM quoted companies	**20**	10
	30	10
– Interest on loans to unquoted companies	**115**	111
– Fixed interest Government securities	**209**	258
Income from investments held at fair value through profit or loss	**354**	379
Interest on bank deposits	**9**	15
Interest on VAT recovered in 2008	**9**	–
	372	394

3. Administrative Expenses

	2009 £000	2008 £000
Fund management fee (including irrecoverable VAT to 30 September 2008)	**317**	380
VAT recoverable	**–**	(164)
Other expenses:		
Administration fee (including irrecoverable VAT)	**50**	57
Directors' remuneration	**68**	59
Auditors' remuneration – audit fees	**18**	17
General expenses	**76**	88
	529	437

YFM Private Equity Limited provides fund management services to the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005. The agreement may be terminated by not less than twelve months' notice given by either party at any time.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2½% of Net Asset Value, 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; and
- 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 irrecoverable VAT to September 2008) was £367,000 (2008: £437,000).

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 26, YFM Private Equity Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120p per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in either year under this agreement.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 26 under the heading "Basic Remuneration".

4. Taxation

	2009 Revenue £000	2009 Capital £000	2009 Total £000	2008 Revenue £000	2008 Capital £000	2008 Total £000
Corporation tax at 21% (2008: 21%)	**11**	**(11)**	**–**	26	(26)	–
Profit before taxation	**81**	**229**	**310**	135	423	558
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 21% (2008: 21%)	**17**	**48**	**65**	28	89	117
Effect of:						
UK dividends received	**(6)**	**–**	**(6)**	(2)	–	(2)
Non taxable profits on investments	**–**	**(98)**	**(98)**	–	(126)	(126)
Excess management expenses	**–**	**39**	**39**	–	11	11
Tax charge (credit)	**11**	**(11)**	**–**	26	(26)	–

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

Deferred tax assets of £354,000 calculated at 21% (2008: £315,000) 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:

	2009 Revenue £000	2009 Capital £000	2009 Total £000	2008 Revenue £000	2008 Capital £000	2008 Total £000
Final dividend for the year ended 31 December 2008 of 2.0p (2007 year end: 1.5p) per share	**–**	**333**	**333**	109	141	250
Interim dividend for the year ended 31 December 2009 of 2.0p (2008: 2.0p) per share	**70**	**262**	**332**	–	332	332
Special interim dividend for the year ended 31 December 2009 of 2.0p (2008: 2.0p) per share	**–**	**333**	**333**	–	333	333
	70	**928**	**998**	109	806	915

The Special dividend of 2p accompanying the interim dividend of 2p was declared on 24 September 2009 and paid on 30 October 2009 to Shareholders on the register on 2 October 2009.

A final dividend of 2.0p per Ordinary share in respect of the year to 31 December 2009, amounting to £333,000, is proposed. This dividend has not been recognised in the year ended 31 December 2009 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 after tax attributable to equity Shareholders of £310,000 (2008: £558,000) and 16,641,257 (2008: 16,641,257) 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 revenue profit for the year attributable to equity Shareholders of £70,000 (2008: £109,000) and 16,641,257 (2008: 16,641,257) shares being the weighted average number of shares in issue during the year.

6. Basic and Diluted Earnings per Ordinary Share (cont)

The basic and diluted capital return per Ordinary share is based on the capital profit for the year attributable to equity Shareholders of £240,000 (2008: £449,000) and 16,641,257 (2008: 16,641,257) 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 2009 or 31 December 2008. 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 2009 and 31 December 2008.

7. Financial Assets at Fair Value through Profit or Loss

Effective from 1 January 2009 the Company adopted the amendment to IFRS 7 regarding financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1 and comprise AIM listed investments or government securities classified as held at fair value through profit or loss.
- Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company holds no such instruments in the current or prior year.
- Level 3: the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There have been no transfers between these classifications in the period (2008: none), and the movement in Level 3 instruments is disaggregated below. The change in fair value for the current and previous year is recognised through the profit and loss account.

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 2009 are summarised as follows:

IFRS 7 measurement classification	Level 3	Level 3	Level 1		Level 1	
	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	7,108	1,885	1,501	**10,494**	4,701	**15,195**
Opening unrealised (loss) gain	(1,926)	(793)	(287)	**(3,006)**	163	**(2,843)**
Opening fair value at 1 January 2009	**5,182**	**1,092**	**1,214**	**7,488**	**4,864**	**12,352**
Additions at cost	259	450	-	**709**	466	**1,175**
Disposal proceeds	(1,821)	(161)	(641)	**(2,623)**	(1,834)	**(4,457)**
Net profit (loss) realised on disposal	1,553	-	290	**1,843**	(50)	**1,793**
Changes in fair value in the year on assets held at 31 December 2009	(1,106)	(281)	125	**(1,262)**	(64)	**(1,326)**
Closing fair value at 31 December 2009	**4,067**	**1,100**	**988**	**6,155**	**3,382**	**9,537**
Closing cost	7,352	2,174	1,164	**10,690**	3,323	**14,013**
Closing unrealised (loss) gain	(3,285)	(1,074)	(176)	**(4,535)**	59	**(4,476)**
Closing fair value at 31 December 2009	**4,067**	**1,100**	**988**	**6,155**	**3,382**	**9,537**

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

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**
Change in fair value in the year on assets held at 31 December 2008	(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	7,108	1,885	1,501	**10,494**	4,701	**15,195**
Closing unrealised (loss) gain	(1,926)	(793)	(287)	**(3,006)**	163	**(2,843)**
Closing fair value at 31 December 2008	**5,182**	**1,092**	**1,214**	**7,488**	**4,864**	**12,352**

The movements in Level 1 and Level 3 instruments, as defined earlier in this note, are summarised below.

	Level 1 £000	Level 3 £000	**Total £000**
Opening fair value at 1 January 2009	6,078	6,274	**12,352**
Additions at cost	466	709	**1,175**
Disposal proceeds	(2,475)	(1,982)	**(4,457)**
Net profit realised on disposal	240	1,553	**1,793**
Change in fair value in the year on assets held at 31 December 2009	61	(1,387)	**(1,326)**
Closing fair value at 31 December 2009	4,370	5,167	**9,537**

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect impairment of financial assets held at the price of recent investment, or to adjust earnings multiples. The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 19a.

The total of fair value adjustments below cost made against unquoted investments during 31 December 2009 amounted to £1,631,000 (2008: £793,000). This includes no amounts written off such investments in 2009 or 2008.

During the period £794,000 was written off the fair value of Silistix Limited, where the Fund Manager considered it wise to take a prudent approach given significant market uncertainty. With market conditions expected to gradually improve during 2010 there should be opportunities for value growth during the year ahead. In 2008 there were no individual write downs during the year which exceeded 5% of the total assets of the Company.

Fixed income securities are UK Government stocks and are classified as financial assets 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 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2009 £000
DxS Limited	1,969	163	417
The ART Technology Group Inc. (NASDAQ)	638	275	340
RMS Group Holdings Limited	13	13	13
Oxonica plc (AIM)	3	62	10
	2,623	**513**	**780**

The Company may become entitled to receive up to $2,040,000 in respect of the sale of DxS Limited over the period to 2012 subject to that company achieving specific performance milestones. At the year end £214,000 was included within non-current receivables in respect of this deferred consideration.

Significant interests

At 31 December 2009 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
Deep-Secure Limited	Security software	50,000	Ordinary	12%	74%
Digital Healthcare Limited	Healthcare	3,137,345	Ordinary	25%	–
Ellfin Homecare Limited	Healthcare	19,425	Ordinary	4%	48%
Harvey Jones Limited	Manufacture/distribution	38,858	Ordinary	7%	54%
Primal Pictures Limited	Medical Information	350,640	Ordinary	16%	4%
RMS Group Holdings Limited	Stevedoring/logistics	70,010	Ordinary	3%	21%
Waterfall Services Limited	Healthcare	25,010	Ordinary	6%	25%

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

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager 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 2009 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	YFM Group Limited £000	The Chandos Fund LP £000	Total £000	Total for this Company £000
Brulines plc	163	–	–	–	–	163	81
Cambridge Cognition Limited	325	–	–	–	–	325	240
Deep-Secure Limited	1,000	–	–	–	2,000	3,000	500
Digital Healthcare	–	–	–	22	–	22	3,072
Ellfin Homecare Limited	769	1,098	–	–	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	–	–	25	—	525	961
RMS Group Holdings Limited	999	–	–	–	1,387	2,386	389
Silistix Limited	–	1,006	–	–	–	1,006	1,215
Tissuemed Limited	–	–	100	–	–	100	48
Waterfall Services Limited	1,000	–	–	–	–	1,000	250

In a number of cases the issued ordinary share capital of an investee company is split into different classes of shares and thus the percentages given above do not necessarily represent the Company's (or other commonly managed funds') percentage holding of an investee company's total equity. The Company does not hold more than 50% of the equity of any company in the investment portfolio, either on its own or in conjunction with other commonly managed funds.

8. Trade and Other Receivables

	2009 £000	2008 £000
Non-current assets:		
Accrued income	**214**	–
Current assets:		
Trade receivables	**325**	336
Less: Allowances for credit losses on trade receivables	**(296)**	(282)
Prepayments and accrued income	**163**	170
Other debtors	**–**	164
	192	388

Allowances for credit losses on trade receivables:		
Allowances as at 1 January	**282**	282
Additions – charged to statement of comprehensive income	**14**	–
Allowances as at 31 December	**296**	282

Trade receivables are assessed for impairment when older than 90 days or where there is reasonable doubt that payment will be received in due course. As of 31 December 2009, trade receivables of £29,000 (2008: £54,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2009 £000	2008 £000
1–3 months	**29**	31
3–6 months	**–**	5
More than 6 months	**–**	18

As of 31 December 2009, trade receivables of £296,000 (2008: £282,000) were impaired and provided for. The ageing of these receivables is as follows:

	2009 £000	2008 £000
1–3 months	**14**	–
3–6 months	**–**	–
6–12 months	**–**	–
More than 12 months	**282**	282

The carrying amounts of the Company'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 £293,000 (2008: £54,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2009 £000	2008 £000
Cash at bank	**204**	109
Cash held in liquidity funds	**2,100**	–
	2,304	109

10. Trade and Other Payables

	2009 £000	2008 £000
Amounts payable within one year:		
Accrued expenses	**47**	55
Other creditors	**94**	–
	141	55

11. Called-up Share Capital

	2009		2008	
	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 (2008: 50,000,000)	**5,000**		5,000	
Issued: 16,641,257 (2008: 16,641,257)		**1,664**		1,664

There 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 26. 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 £12,106,000 (2008: £12,794,000) and 16,641,257 (2008: 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 2009 or 31 December 2008. Consequently, basic and diluted net asset value per Ordinary share is the same for the year ended 31 December 2009 and 31 December 2008.

13. Total Return per Ordinary Share

The Total return per Ordinary share is calculated on cumulative dividends paid of 22.0 pence per Ordinary share (2008: 16.0 pence per Ordinary share) plus the net asset value as calculated per note 12.

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

	2009 £000	2008 £000
Profit before taxation	**310**	558
Increase (decrease) in trade and other payables	**86**	(102)
Decrease (increase) in trade and other receivables	**196**	(160)
Gains on realisation of investments in the year	**(1,793)**	(1,369)
Losses on investments held at fair value	**1,326**	768
Net cash inflow (outflow) from operating activities	**125**	(305)

14. Reconciliation of Profit before Taxation to Net Cash Inflow (Outflow) from Operating Activities (cont)

Cash movements above include the following:

	2009 £000	2008 £000
Dividends received	**30**	9
Interest received		
– gilt interest	**225**	250
– deposit interest	**7**	17
Total interest	**262**	276

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2009 £000	Cash flow £000	Other non cash changes £000	**31 December 2009 £000**
Cash at bank	109	95	–	**204**
Cash held in liquidity funds	–	2,100	–	**2,100**
	109	2,195	–	**2,304**

16. Financial Commitments

There was one investment (2008: none) approved by the Board of Directors at 31 December 2009, which has not been reflected in these accounts, amounting to £200,000. Since the year end one further investment (2008: none) has been approved by the Board. Further information can be found in note 18.

17. Related Party Transactions

YFM Group Limited, the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds investments in Digital Healthcare Limited and Primal Pictures Limited, investee companies of British Smaller Technology Companies VCT 2 plc. At 31 December 2009 YFM Group's investment in Digital Healthcare was valued at £21,791 (2008: £16,342) and its investment in Primal Pictures Limited was valued at £25,428 (2008: £25,428).

Mr Last is a non-executive director of Patsystems plc. During the year Mr Last received £45,000 (2008: £40,842) from Patsystems plc in respect of his services. Mr Last holds a 0.4% equity stake in Patsystems plc.

Mr Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.

Mr Cammerman is a non-executive director of Pressure Technologies plc. During the year Mr Cammerman received £15,300 (2008: £11,250) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.01% equity stake in Pressure Technologies plc. He also holds a 0.04% stake in Brulines plc.

18. Events after the Balance Sheet Date

On 1 March the Company invested £0.15 million into Silistix Limited, a company developing silicon chip technology.

On 25 February 2010 your Board published proposals offering investors the opportunity to subscribe for up to 1,664,125 million new Ordinary shares in the Company at an offer price of 77.25 pence per share. These proposals were by way of two offers closing on 5 April 2010 and 30 April 2010 respectively.

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 15. 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 or in high quality AAA rated liquidity funds until suitable qualifying investment opportunities arise.

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

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

	2009		2008	
	Loans and receivables £000	**Assets at fair value through profit or loss £000**	Loans and receivables £000	Assets at fair value through profit or loss £000
Assets as per balance sheet				
Non-current assets				
Trade and other receivables	**214**	**–**	–	–
Current assets				
Cash and cash equivalents	**2,304**	**–**	109	–
Trade and other receivables	**79**	**–**	54	–
Financial assets at fair value through profit and loss	**–**	**9,537**	–	12,352
	2,597	**9,537**	163	12,352
Other assets – not financial instruments	**113**	**–**	334	–
	2,710	**9,537**	497	12,352

	2009 Other financial liabilities £000	2008 Other financial liabilities £000
Liabilities as per balance sheet		
Trade and other payables	**(141)**	(55)
	(141)	(55)

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 IAS 39, either in current or prior periods.

19. Financial Instruments (cont)

At 31 December 2009 and 31 December 2008, the financial investments, by value, comprised:

	2009		2008	
	£000	**%**	£000	%
Venture capital investments				
Ordinary shares	**4,574**	**37.8**	5,915	46.2
Loan stock	**1,100**	**9.1**	1,092	8.5
Preferred Ordinary Shares	**481**	**4.0**	481	3.8
	6,155	**50.9**	7,488	58.5
Fixed interest Government Securities	**3,382**	**27.9**	4,864	38.0
Cash at bank	**204**	**1.7**	109	0.9
Cash held in liquidity funds	**2,100**	**17.3**	–	–
Other financial assets	**293**	**2.5**	54	0.4
Other financial liabilities	**(141)**	**(1.2)**	(55)	(0.4)
	11,993	**99.1**	12,460	97.4
Other assets – not financial instruments	**113**	**0.9**	334	2.6
	12,106	**100.0**	12,794	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 Fund are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

19a Market Risk

Compliance Risk

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

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 maximised when investments are bought or sold at appropriate times in the economic cycle.

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. Financial Instruments (cont)

16% of the Company's equity investments are traded on AIM (2008: 19%). A 5% increase in stock prices as at 31 December 2009 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £49,000 (2008: £61,000). 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.

84% of the Company's equity investments are in unquoted companies held at fair value (2008: 81%). The valuation methodology for these investments includes the application of externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed element. Investments have been valued in line with the valuation guidelines described on page 15. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10% decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £189,000 (1.6% of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

Other valuations are valued at the price of recent investment, reviewed for impairment and discounted where the fair value of the investment no longer equates to the cost of the recent investment. A 10% decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £367,000 (3.0% of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by £309,000 (2.6% of net assets).

The largest single concentration of risk relates to the Company's investment in Digital Healthcare which constitutes 14% (2008: 16.5%) 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 3.4% (2008: 3.1%) of the value of net assets.

Interest rate Risk

The Company's venture capital investments include £1,100,000 (2008: £1,092,000) 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 0% of its loan stock portfolio (2008: 11%). 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 accrued income and other financial liabilities, being accrued expenses, attract no interest and have an expected maturity date of less than 1 year.

	2009			2008		
	£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 is fixed Months
Fixed rate Loan stock	**1,100**	**7.68%**	**35**	1,092	7.66%	36
Government Gilts	**3,382**	**5.05%**	**20**	4,864	5.09%	22
Combined	**4,482**	**5.97%**	**26**	5,956	5.77%	25

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

19. Financial Instruments (cont)

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 excluding equity investments total £5,979,000 (2008: £5,027,000) which 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 and high quality money market funds. 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.

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 Singer Capital markets, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Board monitors the Company's risk by reviewing the broker'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 bank, broker (for the gilts) and money market fund used by the Company are large and reputable. Should the credit quality or the financial position of the banks or fund deteriorate significantly the Fund Manager, gilt and money market managers will move the cash holdings to another bank or fund.

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

	2009 £000			2008 £000		
	<1 year	**1-2 years**	**2-5 years**	<1 year	1-2 years	2-5 years
Unquoted loan investments	**–**	**14**	**1,086**	–	148	944

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

	2009 £000			2008 £000		
	1 month	**3-6 months**	**> 6 months**	1 month	3-6 months	> 6 months
Interest	**30**	**–**	**–**	28	3	24
Capital repayment	**–**	**–**	**–**	–	–	–

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 places its surplus funds in a mixture of Government gilts and high quality AAA rated liquidity funds, which invest in a pool of highly rated money market securities. 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 and liquidity funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Consequently, trading in Government stocks is primarily 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. 19% (2008: 1%) of the Company's assets are in the forms of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end.

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 15. Where investments are in quoted stocks, fair value is set at market price, discounted if appropriate. 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, adjusted for background factors specific to the investment, is taken as a reasonable assessment of fair value for a period of up to one year. During this period performance against budget is monitored for evidence of changes to this initial fair value. 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 to the multiple 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 2009 was £12.1 million (2008: 12.8 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. On 23 May 2006 the Company withdrew its share buy-back policy for an indefinite period. For the benefit of Shareholders the Board now recommends the reintroduction of a share buy-back policy, with an initial discount of 15% on Net Asset Value. It is the Board's intention that this be proposed at the Company's Annual General Meeting to be held on 12 May 2010.

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 33 St James Square, London, SW1Y 4JS on 12 May 2010 at 10:00 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 2009 be received.

(2) That the final dividend of 2.0p per Ordinary share for the year ended 31 December 2009 be approved.

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

(4) That Mr R M Pettigrew, who retires by virtue of service for more than nine years, be re-elected as a director.

(5) That Mr P S Cammerman, who retires by virtue of service for more than nine years, be re-elected as a director.

(6) That Mr R Last, who retires by virtue of service for more than nine years, be re-elected as a director.

(7) That Grant Thornton UK LLP be appointed as auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PKF (UK) LLP) 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.

As Special Business

(8) That the Company continue in being as a Venture Capital Trust and that, if the Company has not then been wound up or unitised or reorganised, a further such resolution be proposed at the Annual General Meeting to be held in 2015;

Special Resolution

(9) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 10p in the capital of the Company provided that:

9.1 the maximum aggregate number of Ordinary Shares authorised to be purchased is 2,494,524, being 14.99% of issued Ordinary Shares as at 31 December 2009;

9.2 the maximum price which may be paid for an Ordinary share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

9.3 the minimum price which may be paid for an Ordinary share is its nominal value;

9.4 this authority shall take effect from 12 May 2010 and shall expire at the conclusion of the Company's next Annual General Meeting or on the expiry of 15 months following the passing of the resolution, whichever is the earlier; and

9.5 the Company may make a contract or contracts to purchase Ordinary Shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
23 March 2010

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

Notice of the Annual General Meeting

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, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of appointment for holding the Meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he so wishes.

(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 6.00 pm on 10 May 2010, 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) Biographical details concerning the directors retiring by rotation and offering themselves for re-election can be found at page 16 of the Annual Report.

(6) 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 33 St James Square, London, SW1Y 4JS on 12 May 2010 at 10:00 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 12 May 2010 at 10:00 am and at any adjournment thereof.

No of Ordinary shares proxy is appointed over.....

Please tick here if this proxy is one of multiple appointments being made (see note (b)). ☐

My/our proxy is to vote as indicated below.

ORDINARY BUSINESS			
ORDINARY RESOLUTIONS	**FOR**	**AGAINST**	**WITHHELD**
1. To receive the Annual Report and Accounts	☐	☐	☐
2. To approve a final dividend	☐	☐	☐
3. To approve the Directors' Remuneration Report	☐	☐	☐
4. To re-elect as a director Mr R M Pettigrew	☐	☐	☐
5. To re-elect as a director Mr P S Cammerman	☐	☐	☐
6. To re-elect as a director Mr R Last	☐	☐	☐
7. To re-appoint Grant Thornton UK LLP as auditors	☐	☐	☐
SPECIAL BUSINESS			
8. To continue as a Venture Capital Trust	☐	☐	☐
SPECIAL RESOLUTION			
9. To authorise the Company to make purchases of its own shares	☐	☐	☐

Signature ..... Dated 2010

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

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

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

(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, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, 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.

(h) The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

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PXS
34 BECKENHAM ROAD
BECKENHAM
BR3 4TU

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Financial History

	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006	Year ended 31 December 2005
Income	**372,000**	£394,000	£339,000	£220,000	£82,000
Profit (loss) before and after tax	**310,000**	£558,000	(£203,000)	£1,515,000	(£421,000)
Earnings per share	**1.86p**	3.35p	(1.22)p	9.0p	(5.14)p
Cumulative dividend paid	**22.0p**	16.0p	10.5p	7.0p	7.0p
Net assets	**£12,106,000**	£12,794,000	£13,151,000	£13,936,000	£12,840,000
Net asset value per share	**72.7p**	76.9p	79.0p	83.7p	74.2p
Total return per share	**94.7p**	92.9p	89.5p	90.7p	81.2p

The accounts were prepared under International Financial Reporting Standards in all years and the profit 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

Fixed Interest Securities Adviser
Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

Money Market Fund Adviser
Prime Rate Capital Management LLP
One Vine Street
London W1J 0AH

Independent Auditors
Grant Thornton UK LLP
2 Broadfield Court
Sheffield S8 0XF

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

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

BRITISH
SMALLER
TECHNOLOGY
COMPANIES
VCT 2 plc

Saint Martins House

210 - 212 Chapeltown Road

Leeds LS7 4HZ