SPARK VCT 2 PLC

Annual Report 2008

About **SPARK VCT 2 plc**

The objective of SPARK VCT 2 plc, formerly Quester VCT 4 plc, is to provide shareholders with an attractive income and capital return enhanced by tax benefits, by investing in a diverse portfolio consisting largely of unquoted investments. From time to time the portfolio will also include quoted equities and fixed interest securities.

On 27 November 2008 the High Court sanctioned a Scheme of Arrangement for the merger of SPARK VCT 2 plc and SPARK VCT 3 plc (formerly Quester VCT 5 plc).

The venture capital portfolio focuses mainly on technology-related companies in the TMT (technology, media and telecoms) and healthcare sectors.

Dividends paid by SPARK VCT 2 plc, as an approved venture capital trust, are tax free to eligible shareholders, which substantially enhances the effective returns to shareholders.

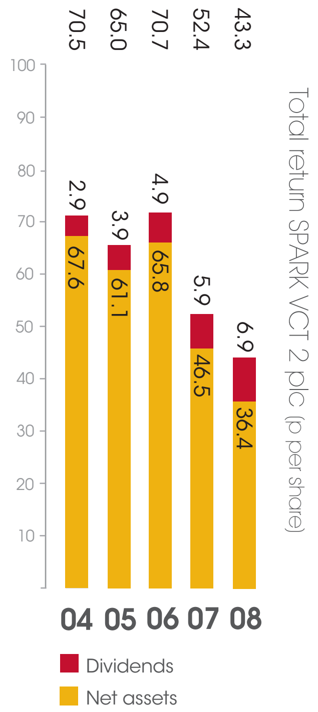
Investment in a venture capital trust should be viewed as a high risk, long-term investment. Eligible shareholders are reminded that a sale of their shareholding in SPARK VCT 2 plc may give rise to a loss of any capital gains tax deferral granted at the time of their original subscription.

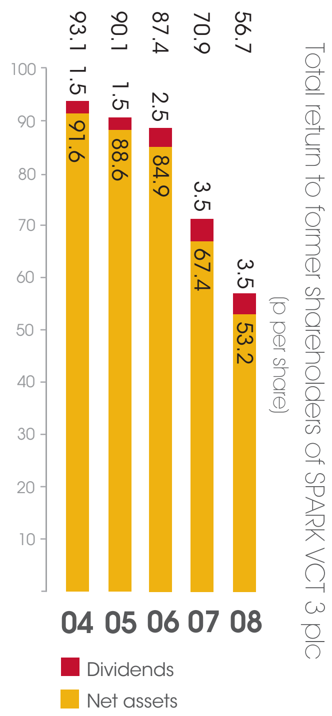
Financial highlights as at 31 December 2008

Per ordinary share (pence)	31.12.08	31.12.07	31.10.06
Net asset value	36.4	46.5	65.8
Dividends			
Dividend paid (1)	1.0	1.0	1.0
Cumulative dividend (2)	6.9	5.9	4.9
Total return per share (3)			
SPARK VCT 2 plc	43.3	52.4	70.7
Return including tax benefits (5)	63.3	72.4	90.7
Total return per 100p invested (4)			
SPARK VCT 3 plc	56.7	70.9	87.4
Return including tax benefits (5)	76.7	90.9	107.4

(1) Dividend paid in the financial year ended on the date stated
(2) Cumulative dividends paid by SPARK VCT 2 plc
(3) Net asset value plus cumulative dividend per share to original shareholders in SPARK VCT 2 plc since the launch of the Company (then called Quester VCT 4 plc) in November 2000.
(4) Total return to former shareholders in SPARK VCT 3 plc, launched in December 2001 (under the name Quester VCT 5 plc), which was merged with SPARK VCT 2 plc in November 2008. The share exchange ratio for former shareholders in SPARK VCT 3 plc was 1.4613. The total return stated is applicable only to subscribers of shares in Quester VCT 5 plc at the time of launch of the Company in 2001-2. It does not represent the return to subsequent subscribers or purchasers of shares.
(5) Return after 20% income tax relief but excluding capital gains deferral.

The Directors do not recommend a dividend for the year ended 31 December 2008.





Composition of the fund by value	**31.12.08**
Unquoted venture capital investments	65.6%
Quoted venture capital investments	6.0%
Cash and other net current assets	28.4%
	100.0%

Chairman's statement

Overview

In writing my statement this year, it is a pleasure to extend a welcome to the former shareholders in SPARK VCT 3 plc who are now shareholders in the Company following the merger which became effective on 27 November 2008.

Shareholders will be aware that over recent months financial and economic conditions have significantly worsened and the outlook, as it appears at present, is for difficult conditions for some time to come.

In the Half Yearly Financial Report I commented that, with the change in market sentiment in the early part of 2008, the environment for achieving exits from venture capital investments had become more difficult and that one significant exit opportunity had been lost. At the time of writing this statement, the environment in this respect shows no sign of improving in the short term. The environment for the raising of new third-party funding by venture capital-backed companies also remains very difficult.

During 2008, the focus of the SPARK management team's work has been on the stabilisation of the portfolio and putting it on a sound footing to weather the increasingly difficult conditions. This work has built on the new team's detailed review of the portfolio on which I reported last year, which included classifying the companies according to their potential to deliver capital growth, and most importantly identifying those that are key to producing a good return for the whole portfolio, which has informed all the management's subsequent decision-making.

The Company's principal objective for 2009 is to ensure that the portfolio remains stable. Much of the work required will be represented by continued interaction of individual members of the SPARK management team with investee companies, working with them to ensure appropriate cost control and management of cash resources while at the same time focusing strategy and identifying opportunities for future growth. Further information on the SPARK team's contribution in this respect is detailed under 'Portfolio progress' in the Business review on page 7.

At the level of the Fund as a whole, a number of steps have been taken to position the Company to face the hard times. As reported in the Half Yearly Financial Report, the decision was taken in early July 2008 to sell the entire portfolio of listed equities. This transaction was entered into as a precautionary measure, given the potential requirements for cash over the next two years in market conditions in which exits may be more difficult to achieve, and has saved a substantial sum in view of the subsequent fall in the stock market. Following on from that decision, the Company's financial resources are now being concentrated on the support of existing portfolio companies. A cautious approach is being taken to the programme of new investment, pending greater visibility on the availability of cash from realisation of existing investments.

Results for the year ended 31 December 2008

The movement in net assets and net assets per share in the year ended 31 December 2008 is summarised in the table below.

	Venture capital investments £'000	Listed equities and net current assets £'000	Total £'000	Pence per Share
Net asset value at 31 December 2007	**18,322**	**3,423**	**21,745**	**46.5**
Income	1	634	635	1.1
Operating expenses	–	(1,258)	(1,258)	(2.3)
Net losses on disposal	(89)	(437)	(526)	(0.9)
Net loss on revaluation of investments	(4,084)	–	(4,084)	(7.3)
Net investment by the Company	(2,895)	2,895	–	–
Assets acquired on merger with SPARK VCT 3 plc	9,234	3,711	12,945	–
Net assets before dividends and share buy-backs	**20,489**	**8,968**	**29,457**	**37.1**
Dividend paid	–	(467)	(467)	(1.0)
Share buy-backs	–	(395)	(395)	0.3
Net asset value at 31 December 2008	**20,489**	**8,106**	**28,595**	**36.4**

Net assets per share, before the payment of dividends and share buy-backs, fell by 9.4p in the year. The dividend paid during the year (the final dividend in respect of the period ended 31 December 2007, approved at the last AGM) was 1p per share.

The total return to shareholders from the launch of the Company in November 2000 to 31 December 2008, inclusive of all dividends paid, now amounts to 43.3p per share before taking account of tax reliefs.

The total return to original shareholders in SPARK VCT 3 plc from its launch in December 2001 (under the name Quester VCT 5 plc) to 31 December 2008, inclusive of all dividends paid, amounts to 56.7p per 100p originally invested, before taking account of tax reliefs.

The charts on page 1 show the movement in total return for both groups of shareholders over the last five accounting periods.

Net losses on disposal of investments during the year amounted to £526,000. In the venture capital portfolio, the loss mainly related to the sale of the holding in Oxford BioMedica plc following its announcement of a failure in clinical trials. The sale in early July 2008 of the portfolio of listed equities, as referred to above, also resulted in a loss but protected the Company against a much larger loss of value (at the date of this report, of around £1.5 million) that would have been sustained if the portfolio had been retained.

In respect of venture capital investments held at year end, a reduction in valuation of £4,084,000 has been recorded for the year. The review of unquoted valuations at 31 December 2008 has been based mainly on (i) prices of recent financing rounds and/or the prospective terms of financing rounds expected within the next 12 months, (ii) earnings multiples, and (iii) industry valuation benchmarks and/or M&A criteria, in each case under the application of the International Private Equity and Venture Capital Valuation Guidelines. In a number of cases, the write-down reflects disappointing business progress by the investee company, but in the main the valuation changes parallel the reductions that are being seen in the valuations of financial assets generally.

The Company acquired additional net assets of £12,945,000 as a result of the merger with SPARK VCT 3 plc. As shareholders will be aware, the merger was structured as a share-for-share exchange through a Scheme of Arrangement, with the share exchange ratio being determined by reference to the relative formula asset values of the two companies (NAV per share, less the expenses of the transaction). As a result, the merger itself has no impact on the net asset value per share of the Company (other than in respect of the expenses of the transaction).

Board

Patrick Seely, formerly a director of SPARK VCT 3 plc, was appointed to the Board upon the merger of the two companies. In accordance with the Articles of Association, he will stand for election at the AGM.

Dividend

The dividend policy of the Company is to seek to maximise the dividend payable from available distributable profits. As we have previously made clear, as a result of the nature of a VCT, dividends payable can vary considerably from time to time depending on the level of income and capital gains.

Other than the exits from Nomad Payments Limited and Identum Limited, which were taken into account in the recommendation of the final dividend of the Company for the period ended 31 December 2007, no profitable realisations have been achieved during the past year. Accordingly the Board does not recommend a dividend in respect of the year ended 31 December 2008. In addition, the Board will carefully consider whether resources are sufficient to make share buy-backs.

Outlook

Investment in early stage companies in technology sectors has always required a good deal of patience. The Board is conscious that most of the investments of both the Company and SPARK VCT 3 plc have involved long holding periods and that dividends paid to shareholders out of the proceeds of successful realisations have so far been few in number.

At a time when some of the investments should have been expected to be nearing readiness for an exit, we are now faced with the most extraordinarily difficult conditions in global markets. We have to plan for the fact that, in the short term, exits will be very difficult to achieve. In respect of 2009, as the outlook appears at present, shareholders are unlikely to see significant positive returns, either in the form of dividends or capital growth. For the immediate future, priority must be given to the continued support of the existing portfolio.

The Board is, however, confident that, after suffering a good deal of attrition over recent years, the present more concentrated portfolio of venture capital investments does offer the prospects of significant capital growth from present levels, permitting dividend distributions in due course, provided that the investee companies can maintain stability and see their way through these difficult times.

The Board is mindful of the tax benefits that shareholders have received in respect of their original investment in the Company or SPARK VCT 3 plc, both in the form of income tax relief and, in many cases, capital gains deferral. The Board is also conscious of the potential benefit to shareholders represented by the opportunity for the Company to pay tax-free dividends. Over the coming months the Board will be reviewing the future direction of the Company so as to ensure that returns are delivered to shareholders in the most effective way, while at the same time ensuring that the ongoing activities of the Company are appropriately funded.

Robert Wright
Chairman
9 April 2009

Fund summary as at 31 December 2008

	Industry sector	Cost [(1)] £'000	Valuation £'000	Equity % held	% of fund by value
Fifteen largest venture capital investments					
Workshare Limited	TMT	2,947	3,066	10.2%	10.7%
Xention Limited	Healthcare	2,194	1,815	8.5%	6.3%
Oxford Immunotec Limited	Healthcare	2,388	1,802	8.8%	6.3%
Xtera Communications, Inc.	TMT	3,068	1,656	1.3%	5.8%
UniServity Limited	TMT	1,400	1,400	23.2%	4.9%
Elateral Holdings Limited [(2)]	TMT	479	1,049	13.8%	3.7%
Celona Technologies Limited	TMT	2,627	983	12.1%	3.4%
Vivacta Limited	Healthcare	798	856	5.4%	3.0%
Level Four Software Limited	TMT	795	795	4.8%	2.8%
Cluster Seven Limited	TMT	845	765	5.8%	2.7%
Isango! Limited	TMT	750	750	13.5%	2.6%
Sift Group Limited	TMT	917	698	8.0%	2.4%
Antenova Limited	TMT	1,718	659	6.2%	2.3%
MediGene AG *FRANKFURT*	Healthcare	797	616	0.6%	2.2%
Celldex Therapeutics, Inc. *NASDAQ*	Healthcare	1,537	568	0.7%	2.0%
		23,260	**17,478**		**61.1%**
Other venture capital investments					
Imagesound plc	TMT	489	489	0.5%	1.7%
Perpetuum Limited	TMT	479	374	4.4%	1.3%
We7 Limited	TMT	334	334	4.1%	1.2%
Haemostatix Limited	Healthcare	312	312	6.6%	1.1%
Secerno Limited	TMT	394	291	3.4%	1.0%
Skinkers Limited	TMT	317	291	1.9%	1.0%
Portrait Software plc *AIM*	TMT	1,186	216	2.7%	0.8%
Allergy Therapeutics plc *AIM*	Healthcare	795	177	2.2%	0.6%
Gemini Holdings Limited	Healthcare	245	123	6.9%	0.4%
Celoxica Holdings plc [(2)]	TMT	192	104	2.6%	0.4%
TeraView Limited	Healthcare	1,064	100	5.4%	0.3%
Other investments: valuations less than £100,000 [(2)]		1,359	200		0.7%
		7,166	**3,011**		**10.5%**
Total venture capital investments		**30,426**	**20,489**		**71.6%**
Total unquoted venture capital investments		25,877	18,782		65.6%
Total quoted venture capital investments		4,549	1,707		6.0%
Total investments		**30,426**	**20,489**		**71.6%**
Cash and other net assets		8,106	8,106		28.4%
Net assets		**38,532**	**28,595**		**100.0%**

(1) Amounts shown as cost represent acquisition cost (in the case of investments originally made by the Company) and/or the valuation attributed to the investment at the date of the merger (in the case of investments originally made by SPARK VCT 3 plc), plus any subsequent acquisition cost, as reduced in certain cases [(2)] by amounts written off as representing an impairment in value.

(2) Cost reduced by amounts written off as representing an impairment in value

Details of movements in valuation of the venture capital investments over the year to 31 December 2008 are set out in note 10(c) in the notes to the financial statements.

Business review

The Business review has been prepared in accordance with Section 234ZZB of the Companies Act 1985 and forms part of the Directors' report to shareholders. This Business review does not contain information about environmental matters, the Company's employees and social and community issues. The investment policy is set out on page 16.

Portfolio update and overview

The majority of the Fund's portfolio companies are still at a relatively early stage in terms of commercial development. The opportunity provided by these companies is to achieve business growth, and generate a capital return for investors, by addressing new markets growing on the back of new technologies or services. Such companies are generally financed entirely by equity raised from venture capital sources and they are not dependent on borrowings from banks or other lenders. For early stage companies, there remains the opportunity for growth to continue, even in present circumstances, though potentially at a lower rate than might previously have been expected.

Financing conditions for early stage companies needing to raise additional equity have, however, become extremely difficult. The reduced general availability of venture capital finance means that such companies may seek to place greater reliance on their existing investors for funding. In addition, as far as the companies' business operations are concerned, there is the risk of slower than expected revenue growth. Among the Fund's investee companies in the technology, media and telecoms (TMT) sector, companies are potentially vulnerable to commercial setbacks, such as delays in the award of key customer contracts by major corporate purchasers (the Fund does not have significant direct exposure to consumer markets). In the life sciences sector, where a number of the Fund's investee companies are still at the stage of scientific development and the planning of partnering arrangements with pharmaceutical companies, considerations of rate of revenue growth are less directly applicable.

In all such companies, whether by reason of the risk of slower than expected revenue growth or reduced availability of venture capital finance, increased attention has to be paid to cost control and rates of cash burn. During 2008 and in more recent months SPARK team members have been particularly focused on working with the portfolio companies to ensure that these issues are addressed.

A stringent approach has been taken to underperforming companies within the portfolio and during the year decisions were taken to provide no further support to a number of businesses.

For 2009, the principal objective of the SPARK management team is to ensure that the portfolio remains stable. Much of the work required will be represented by continued interaction of individual members of the SPARK management team with investee companies, working with them to ensure appropriate cost control and management of cash resources while at the same time focusing strategy and identifying opportunities for future growth.

Over the longer term, the team's objective is to ensure that management attention and the Fund's financial resources are focused on those businesses that are capable of generating the best returns for shareholders and within a reasonable timeframe.

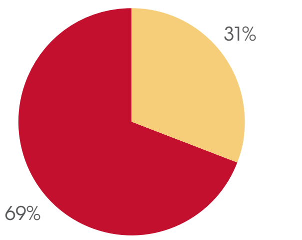
Opportunities for achieving exits from venture capital investments are currently difficult to identify. Cash inflows from investment realisations (subsequent to Nomad Payments Limited and Identum Limited in early 2008) have been extremely limited. The SPARK management team has taken precautionary measures to enable the Fund to maintain adequate cash resources at the level of the portfolio as a whole, including the sale of the portfolio of listed equities completed in July 2008 as well as the above-mentioned steps to ensure that portfolio companies' calls on the Fund for additional capital are minimised.

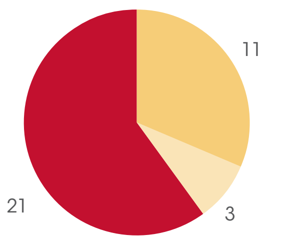
The team's current assessment of prospects for individual portfolio companies is that returns are probably looking more vulnerable, and certainly more delayed than indicated 12 months ago. We now expect the bulk of the realisations of the key portfolio companies to be concentrated in 2011 at the earliest.

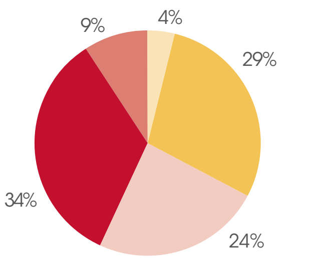
Fund summary

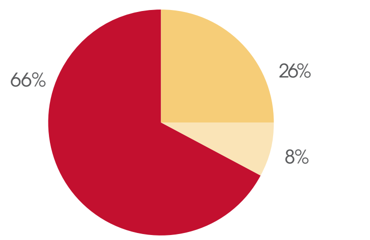
The Fund summary on page 5 lists the venture capital investments held by the Company at 31 December 2008 with their cost and valuation at that date. The 15 largest venture capital investments held at 31 December 2008 collectively account for 61.1% of the net assets at the balance sheet date; further details of these investments are given on pages 12 to 15. Highlights of a number of key developments in the portfolio are set out under "Portfolio progress" below.

The charts below show the composition of the venture capital investment portfolio at 31 December 2008 according to industry sector, time elapsed since the date of first investment in each case and whether the investment is quoted or unquoted and, in the latter case, whether the company concerned is at early stage or development stage.









Portfolio progress

The venture capital portfolio of the Company includes a number of companies at development stage and a rather larger proportion in companies at early stage. Four of the top 15 venture capital investments are in development stage companies, together accounting for 22.6% of net assets at 31 December 2008. All four have demonstrated satisfactory business progress over the year, with organic growth in top-line revenues of between 13% and 40% (Workshare Limited +13%, Elateral Holdings Limited +40%, Sift Group Limited +20%), while Xtera Communications, Inc. grew substantially by acquisition and achieved year-on-year revenue growth of 115%.

Additionally, over the last 12 months, the development of the early stage companies which have been held in the portfolio for some time and are now in revenue generation has been positive with encouraging growth, albeit generally from a small base (examples of year-on-year revenue growth in the TMT sector Antenova Limited +85%, Celona Technologies Limited +500%, UniServity Limited +62%; and in life sciences Celldex Therapeutics, Inc. +173%, MediGene AG +37%, Oxford Immunotec Limited +73%).

In the healthcare sector, the key companies which are still at the stage of scientific development (Xention Limited, Vivacta Limited and Haemostatix Limited) have largely met the milestones set for them over 2008.

As noted above, recent months have seen a great deal of activity on the part of members of the SPARK team in working with the portfolio companies, preparing them for the increasingly difficult financial and economic climate. Team members have been particularly focused on cost control and rates of cash burn. At the same time, there has been an emphasis on working with CEOs on strategic reviews and the promotion of growth opportunities.

The extent of the activity of SPARK management team members is illustrated by the fact that, during 2008 and in the current year to date, in relation to the Fund's top 15 venture capital investments, action has been taken in nine cases to ensure a reduction in the investee company's cost base, in eight cases additional venture capital funding has been raised and in nine cases significant management changes have been made (including a change in the CEO in four cases, the appointment of a new chairman in five cases and other board level changes in two cases).

Business review (cont.)

Highlights of specific business achievements during the year from amongst the largest venture capital investments are as follows:

- **Workshare Limited**: Workshare, the global leader in content protection and control solutions for secure information management, recently announced that more than 11,000 companies now use its latest software product Workshare Professional. Workshare remains the de facto standard for comparison technology with over 78% of users of its earlier DeltaView product now migrated to the improved comparison technology and the remaining 22% expected to switch. Workshare added 3,000 new customers in 2008, and can now count 99% of the top 200 US law firms as customers.

- **Xention Limited**: the Cambridge-based biopharmaceutical company specialising in the discovery and development of ion channel modulating drugs, recently announced signature of a collaborative agreement with Ono Pharmaceutical Co. of Japan. Under the agreement Xention will receive an upfront fee and milestone fees on meeting specified drug discovery targets as well as royalties on the sales of successfully commercialised products. Xention has an emerging pipeline of drug candidates in atrial fibrillation and over-active bladder which it continues to develop for its own account with a view to entering into partnering arrangements with major pharmaceutical companies in due course.

- **Oxford Immunotec Limited**: the Oxford University spinout company commercialising a new test for the diagnosis of tuberculosis, announced in July 2008 that it had gained pre-market approval from the US Food and Drug Administration (FDA) for its T-SPOT®.*TB* test. This represents a significant milestone for the company: it has already been achieving sales success for T-SPOT®.*TB* in Europe and is now able to access the much larger potential of the United States market. The US sales team is now complete and sales in the US market are building gradually.

- **Xtera Communications, Inc.**: Following the merger of Azea Networks, the UK company in which the Fund originally invested, into the US venture-backed company Xtera in November 2007, Xtera has since acquired three additional companies and created a telecommunications network infrastructure specialist that delivers the highest capacity, reach and density (covering long-haul, submarine, metro and WAN technologies). Xtera's acquisitions strategy has enabled it to address larger opportunities because of its more substantial balance sheet and worldwide presence, while at the same time reducing operating costs through the integration and consolidation of the acquired companies. Overall revenues increased year-on-year by 115%.

- **UniServity Limited**: which markets a web-based collaborative learning environment for schools, has achieved considerable success in winning contracts with Local Education Authorities in the UK and is beginning to make progress also in international markets. In November 2008 it announced a major step towards breaking into the Chinese market through a strategic partnership brokered by SPARK Venture Management Limited with the Chinese publishing and media company Time Media Co. Under the terms of the framework agreement, Time Media will launch and promote UniServity's highly successful web-based learning platform to schools throughout mainland China.

- **Elateral Holdings Limited**: Elateral is a global leader in brand asset management software. In the early part of the year, the company was a victim of the sentiment change in markets when an acquisition offer was withdrawn by a private equity buyer on account of market turmoil. For 2008 as a whole, Elateral reported top-line revenue growth of 40% and announced a number of significant client wins including Autodesk, NetApp and Toyota. The company was also able to renew and extend its relationship with existing blue chip clients, including Cisco which entered into its ninth year of usage of the product.

- **Celona Technologies Limited**: Celona Technologies is a developer and vendor of data migration software for large companies seeking to upgrade legacy systems. The business has suffered from delays in closing big orders and has had to adjust its cost base accordingly. Nevertheless, revenues are growing rapidly on the back of some major client wins (up by 500% year-on-year), and its telecoms sector clients see the company's software as increasingly mission-critical regardless of the economic environment.

- **Vivacta Limited**: Vivacta is a diagnostics company developing instrumentation and cartridges for point-of-care tests. The company has achieved its technical targets for its first test. The process of scale-up and manufacturing is underway. It is beginning commercial discussions with a view to licensing its technology.

- **Level Four Software Limited**: Level Four is the leading independent vendor of automated testing solutions for banks' networks of automated teller machines (ATMs). Based in Dunfermline, Scotland, the company serves a global client base of tier one banks and processors through offices in Dubai and Charlotte, North Carolina. The company has continued to grow over the last 12 months with notable new client wins including Barclays Bank, HBOS and National Bank of Kuwait.

- **Cluster Seven Limited**: Cluster Seven is the leading provider of spreadsheet management solutions; its product Enterprise Spreadsheet Manager targets the needs of financial institutions and Fortune 500 financial reporting groups, and addresses gaps in existing risk management and compliance solutions. During 2008 the business suffered from the well known uncertainty and turbulence in the financial services industry; nevertheless, the software is now installed in more than 20 tier one customers and greater emphasis on regulation and compliance is not only expanding the range of applications for the product, but also opening the possibility of selling Cluster Seven's solution as an integrated service for users of broad enterprise solutions.

Among the newer investments in the portfolio, **Skinkers Limited**, a software company delivering information broadcast solutions to large enterprises, has completed the development of the Live Notification Platform, an industry leading push communications platform, and started winning its first clients. The downturn in the financial services sector has impacted the sales cycle; however the company has recently won accounts with MBNA and Capital One and has a good sales pipeline. The application for MBNA is a new online secure delivery service and was recently selected as the "Best Online Initiative" by the credit card industry.

New investments

During the year under review, the pace of new investment was constrained by the existing level of cash resources and the currently poor visibility on the generation of cash proceeds from realisations. Two new investments were completed, one in the TMT sector and one in healthcare, as follows:

Company	Sector	£'000
Unquoted companies:		
Isango! Limited	TMT	450
Gemini Holdings Limited	Healthcare	217
		667

Isango! Limited is an early stage online travel website company offering users an authoritative source of travel experiences such as holiday tours, sightseeing, attractions and activities in more than 50 countries across the world. Since the investment was completed in the first quarter of the year, Isango! has been impacted by the downturn but has continued to develop its partnership strategy and recently became the exclusive partner of Accor Hotels and TravelSupermarket.com for tours and activities.

Gemini Holdings Limited is the holding company of Gemini Biomedical Limited, a specialist healthcare screening company which provides medical screening services to life insurance companies and underwriters. Gemini's service is provided through a network of pharmacies contracted to Gemini and easily accessed by applicants. Its GemTrack software enables capture of the comprehensive screening data required for timely and accurate underwriting of policies.

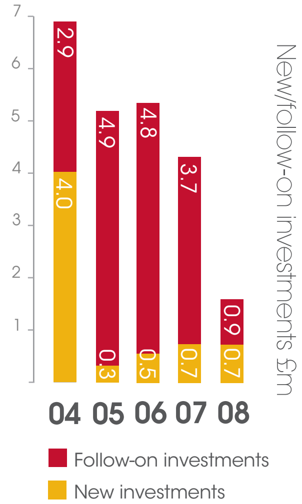
The selection of these two new investments was in line with the indications given in last year's Business review, namely that the programme of new investment should be expected to include (a) within the TMT sector, a greater emphasis on opportunities in the digital media and software applications sectors and a reduced exposure to 'hardware' investments and (b) in healthcare, a reduced exposure to drug discovery and a greater emphasis on other areas.

The early progress of Gemini Holdings, since the investment was completed in the third quarter of 2008, has been disappointing and slower than had been expected. The company is receiving close attention from members of the SPARK management team, with fresh milestones being set for the progress expected over the coming months.

Business review (cont.)

Follow-on investments

The year to 31 December 2008 saw continued investment in a number of key companies in the portfolio, although at a much reduced rate overall compared with 2007, as summarised in the table below (the figures exclude follow-on investments completed by SPARK VCT 3 plc prior to the date of the merger).

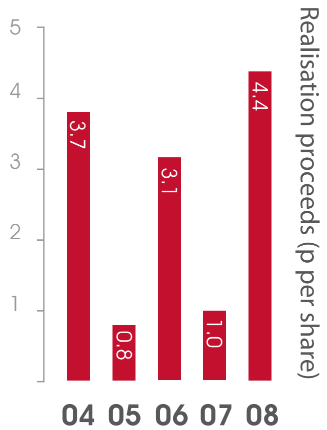


Company	Sector	£'000
Follow-on rounds in unquoted companies:		
Antenova Limited	TMT	177
Celona Technologies Limited	TMT	32
Celoxica Holdings plc	TMT	83
Cluster Seven Limited	TMT	79
Oxford Immunotec Limited	Healthcare	93
We7 Limited	TMT	58
Xention Limited	Healthcare	223
Other companies (3)		49
		794
Bridge finance ahead of planned realisation:		
Arithmatica Limited	TMT	123
		123
		917

Amongst the companies receiving the most significant amounts of follow-on finance, **Antenova Limited** grew top-line revenues by 85% and demonstrated satisfactory progress in winning more profitable business, but in consequence required additional working capital to maintain adequate stock levels. The terms of the funding round completed in the fourth quarter of 2008 were inevitably less attractive than would have been expected earlier, but by participating in the round at a level more than pro-rata to its previous holding, the Company took advantage of these terms to enhance its position in the investment. Also in the TMT sector, the Company committed £80,000 to **Celona Technologies Limited** alongside lead investor Caledonia Investments plc in a £2.0 million additional funding, upon confirmation of success in winning a new order from a major European telecoms operator, with £32,000 being advanced during the fourth quarter. In the healthcare sector, the additional £223,000 advanced to drug discovery company **Xention Limited** represented the Company's pro rata share of a first tranche of bridge finance in March 2008.

Realisations

In the Business review for the period ended 31 December 2007, details were given of the successful exit from Nomad Payments Limited in January 2008, in a transaction which realised £3,020,000 (with £2,449,000 received in cash and £571,000 currently being held in escrow), and the trade sale of Identum Limited, also closed in January 2008, which brought in proceeds of £817,000.



In the healthcare sector, the share price of MediGene AG improved over the first half of the year and the opportunity was taken to sell part of this holding. It was disappointing, however, that Oxford BioMedica plc announced in early July that its most important drug candidate TroVax® had failed in a key kidney cancer test, prompting a collapse in the share price. In the absence of any likelihood of early recovery, the decision was taken for an immediate sale of the entire holding.

Overall, a reduction in valuation of Venture Capital Investments of £4,084,000 has been recorded for the year, of which £154,000 has been treated as an impairment. Of the balance of the revaluations, totalling £3,930,000, a total of £3,739,000 relates to revaluations of unquoted investments on the basis described and £191,000 to the effect of market movements on valuations of quoted Venture Capital Investments.

Valuation changes

The valuations of the unquoted investments in the portfolio have been reviewed as at 31 December 2008 on the basis of the International Private Equity and Venture Capital Valuation Guidelines, having regard mainly to (i) prices of recent financing rounds and/or the terms of financing rounds expected within the next 12 months (referred to on pages 12 to 15 as "price of investment round"), (ii) earnings multiples and (iii) industry valuation benchmarks and/or M&A valuation criteria (referred to on pages 12 to 15 as "industry valuation benchmarks"). In a number of cases (Arithmatica Limited, Gemini Holdings Limited, Perpetuum Limited, TeraView Limited), the write-down reflects disappointing business progress by the investee company, but in the main the valuation changes parallel the reductions that are being seen in the valuations of financial assets generally.

Unquoted venture capital investments

The net reduction in valuation of unquoted venture capital investments is summarised below.

Company	£'000
Antenova Limited	(455)
Arithmatica Limited	(619)
Celona Technologies Limited	(892)
Elateral Holdings Limited	570
Gemini Holdings Limited	(123)
Perpetuum Limited	(125)
TeraView Limited	(727)
Workshare Limited	(562)
Xention Limited	(454)
Others (6)	(352)
	(3,739)

Quoted venture capital investments

Movements in valuation of the quoted venture capital investments over the year were as follows:

Company	£'000
Allergy Therapeutics plc *AIM*	(246)
Celldex Therapeutics, Inc. *NASDAQ*	249
MediGene AG *FRANKFURT*	64
Portrait Software Limited *AIM*	(180)
Others (3)	(78)
	(191)

Listed equity and bond portfolio

The valuation of the listed equity portfolio fell by £287,000 over the half year to 30 June 2008. In mid July 2008 this entire portfolio was sold (at a level somewhat below the valuation at 30 June 2008, bringing the loss on this portfolio to £437,000) in order to protect against the possibility of further declines in stock markets and ensure the availability of liquidity to fund necessary follow-on investments and the operations of the Company. In the event, despite crystallising a loss, this strategy has proved to have been the correct one, as the value of the portfolio would otherwise have declined by another £1.5 million as at the date of this report.

Outlook

The turmoil in capital markets and the increasingly constrained resources of the Company are now making it more difficult to make confident predictions for the overall outcome in terms of both valuations and timing of exits. Nevertheless, there was good growth over the last year, by and large, and many of the companies have adapted quickly to the changing market.

The early stage of many of the investments means that a considerable degree of involvement by members of the SPARK management team in individual portfolio companies will continue to be required for a number of years ahead.

On the assumption of successful progress of the key investments, investors should now expect that the bulk of the distributions of realisation proceeds will occur no earlier than 2011.

SPARK Venture Management Limited
Manager
9 April 2009

Fifteen largest venture capital investments

Workshare Limited

Cost	£2,947,000
Valuation	£3,066,000
Basis of valuation	Industry valuation benchmark
Equity held	10.2%
Location	London, UK
Business	Software security tools for safe business information exchange
History	Expansion finance in 2006, Quester sole investor in 2002
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 31/3	2008 $'m	2007 $'m
Sales	23.8	23.2
Loss before tax	(8.4)	(3.6)
Loss after tax	(8.4)	(3.6)
Net (liabilities)/assets	**(0.3)**	**9.5**

Oxford Immunotec Limited

Cost	£2,388,000
Valuation	£1,802,000
Basis of valuation	Price of investment round
Equity held	8.8%
Location	Oxford, UK
Business	Development and sale of T-cell measurement diagnostic products
History	Early stage investment by Quester funds in 2003
Co-investment	Quester Venture Partnership and Isis College Fund Limited Partnerships

Audited financial information Year ended 31/12	2007 £'m	2006 £'m
Sales	1.1	0.6
Loss before tax	(4.5)	(5.1)
Loss after tax	(4.4)	(5.0)
Net assets/(liabilities)	**5.0**	**(0.1)**

Xention Limited

Cost	£2,194,000
Valuation	£1,815,000
Basis of valuation	Industry valuation benchmark
Equity held	8.5%
Location	Cambridge, UK
Business	Ion channel drug discovery and candidate development
History	Co-investment in 2003 round following company formation in 2002
Co-investment	Quester Venture Partnership

Audited financial information Year ended 31/12	2007 £'m	2006 £'m
Net assets	**2.5**	**6.6**

Xtera Communications, Inc.

Cost	£3,068,000
Valuation	£1,656,000
Basis of valuation	Industry valuation benchmark
Equity held	1.3%
Location	Allen, Texas, USA
Business	Optical networking upgrade solutions for repeatered subsea cable assets
History	Quester funds 2002 co-investment prior to 2007 merger with Xtera
Co-investment	Quester Venture Partnership

Audited financial information Year ended 31/3	2007 £'m	2006 £'m
Sales	1.7	0.1
Loss before tax	(7.5)	(5.5)
Loss after tax	(7.4)	(5.4)
Net assets	**2.5**	**1.0**

UniServity Limited

Cost	£1,400,000
Valuation	£1,400,000
Basis of valuation	Price of investment round
Equity held	23.2%
Location	Reading, UK
Business	Learning platform solution provider for school community collaboration
History	Quester early stage investment in 2007, including stock from angel investors
Co-investment	SPARK VCT plc

Audited financial information Year ended 31/7	2007 £'m	2006 £'m
Net assets/(liabilities)	**0.9**	**(0.6)**

Celona Technologies Limited

Cost	£2,627,000
Valuation	£983,000
Basis of valuation	Industry valuation benchmark
Equity held	12.1%
Location	London
Business	Developer and provider of application migration software
History	Sole institutional investor in 2004 post angel round
Co-investment	Quester Venture Partnership

Audited financial information Year ended 31/3	2008 £'m	2007 £'m
Sales	0.5	0.4
Loss before tax	(5.0)	(2.8)
Loss after tax	(4.2)	(2.8)
Net liabilities	**(6.1)**	**(3.6)**

Elateral Holdings Limited

Cost	£479,000
Valuation	£1,049,000
Basis of valuation	Earnings multiple
Equity held	13.8%
Location	Farnham, UK
Business	Web based marketing automation service developer
History	Quester joined an expansion round in 1999, post 3i seed funding VCT 2 joined in 2001
Co-investment	SPARK VCT plc

Audited financial information Year ended 31/3	2008 £'m	2007 £'m
Sales	3.6	2.4
Profit before tax	0.3	0.1
Profit after tax	0.3	0.1
Net liabilities	**(0.7)**	**(0.9)**

Vivacta Limited

Cost	£798,000
Valuation	£856,000
Basis of valuation	Price of investment round
Equity held	5.4%
Location	Sittingbourne, UK
Business	In vitro diagnostics technology delivered at point of care
History	Industrial spin-out, Quester sole investor in 2006, start-up
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 31/7	2008 £'m	2007 £'m
Sales	–	–
Loss before tax	(3.2)	(2.4)
Loss after tax	(2.8)	(2.4)
Net assets	**5.7**	**2.5**

Fifteen largest venture capital investments (cont.)

Level Four Software Limited

Cost	£795,000
Valuation	£795,000
Basis of valuation	Price of investment round
Equity held	4.8%
Location	Maidenhead, UK
Business	Specialist provider of ATM software solutions
History	Early stage investment by Quester funds in 2005
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 30/6	2008 £'m	2007 £'m
Sales	1.8	1.6
Loss before tax	(0.8)	(1.4)
Loss after tax	(0.8)	(1.4)
Net liabilities	**(2.9)**	**(2.2)**

Isango! Limited

Cost	£750,000
Valuation	£750,000
Basis of valuation	Price of investment round
Equity held	13.5%
Location	London, UK
Business	Global aggregator of travel experiences
History	Initial investment made in 2008, early stage
Co-investment	SPARK VCT plc and SPARK Ventures plc

Audited financial information Year ended 31/1	2008 £'m	2007 £'m
Sales	0.4	–
Loss before tax	(0.9)	(0.6)
Loss after tax	(0.9)	(0.6)
Net liabilities	**(0.5)**	**(0.4)**

Cluster Seven Limited

Cost	£845,000
Valuation	£765,000
Basis of valuation	Industry valuation benchmark
Equity held	5.8%
Location	London, UK
Business	Spreadsheet management software, risk/control/compliance
History	Quester investment in 2005 institutional round, early stage
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 31/12	2007 £'m	2006 £'m
Sales	2.3	2.9
Loss before tax	(2.1)	(1.2)
Loss after tax	(2.1)	(1.2)
Net (liabilities)/assets	**(1.8)**	**0.7**

Sift Group Limited

Cost	£917,000
Valuation	£698,000
Basis of valuation	Industry valuation benchmark
Equity held	8.0%
Location	Bristol, UK
Business	Web content management provider
History	Development capital, Quester co-led, 1999
Co-investment	SPARK VCT plc

Audited financial information Year ended 31/12	2007 £'m	2006 £'m
Sales	5.9	5.9
(Loss)/profit before tax	(0.3)	0.1
(Loss)/profit after tax	(0.3)	0.1
Net assets	**0.1**	**0.4**

Antenova Limited

Cost	£1,718,000
Valuation	£659,000
Basis of valuation	Price of investment round
Equity held	6.2%
Location	Cambridge, UK
Business	Developer of antenna technology and radio solutions
History	Co-led syndicate in a 2001 institutional round, early stage
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 31/12	2006 £'m	2005 £'m
Sales	3.9	1.0
Loss before tax	(2.3)	(2.9)
Loss after tax	(2.1)	(2.6)
Net assets	**2.2**	**4.2**

Celldex Therapeutics, Inc

Cost	£1,537,000
Valuation	£568,000
Basis of valuation	Bid price on NASDAQ
Equity held	0.7%
Location	Massachusetts, USA
Business	Biotechnology focusing on the commercialisation of immunotherapeutics
History	Original investment in Lorantis in 2005
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information Year ended 31/12	2008 $'m	2007 $'m
Sales	7.5	1.4
Loss before tax	(47.5)	(15.1)
Loss after tax	(47.5)	(15.1)
Net assets	**70.0**	**9.4**

MediGene AG

Cost	£797,000
Valuation	£616,000
Basis of valuation	Bid price on Frankfurt stock exchange
Equity held	0.6%
Location	Munich, Germany
Business	R&D for the treatment of cancer and autoimmune diseases
History	Original investment in Avidex in 2002, a 1999 Oxford University spin out
Co-investment	SPARK VCT plc, Quester Venture Partnership and Isis College Fund Limited Partnerships

Audited financial information Year ended 31/12	2007 €'m	2006 €'m
Sales	22.0	31.0
Loss before tax	(31.3)	(7.6)
Loss after tax	(30.0)	(6.9)
Net assets	**114.9**	**124.1**

Investment policy

The investment policy of the Company is to invest principally in a diversified venture capital portfolio, including unquoted companies with good growth prospects and companies whose shares are traded on AIM, and also in a portfolio of listed equities and fixed-interest securities.

The intended **asset allocation** is as follows:

- 85% in a venture capital portfolio designed to achieve capital growth; and
- 15% in a portfolio of listed equities or fixed-interest securities, this allocation to be held as a reserve and available for follow-on financing of companies in the existing venture capital portfolio or to meet the net operating expenses of the Company,

but the percentages may be varied from time to time so that, for example, the asset allocation could involve a higher percentage of venture capital investments if the reserve is fully utilised for follow-on investment in the venture capital portfolio.

Risk diversification within the venture capital portfolio will be achieved by a spread of investments across different industry sectors and investment stages. The portfolio will be focused mainly on technology-related companies in the TMT and healthcare sectors. Initial investment may be made in companies at early stage or development stage or in companies seeking to raise capital on AIM.

The target size for venture capital investments at date of first investment will be between £500,000 and £1.0 million (which may be increased with subsequent follow-on investment) and no single investment at cost will normally exceed 5% of the Company's net asset value.

From time to time the venture capital portfolio may include listed, NASDAQ-traded or AIM-traded companies in which investment was originally made on an unquoted basis.

Risk diversification within the portfolio of listed equities and fixed interest securities will be achieved by a broad spread of equity and other investments to be selected by the Company's quoted and fixed interest investment adviser.

Gearing will not normally be employed.

The Directors intend that the Company will continue to qualify as a Venture Capital Trust under the provisions of sections 258-332 of the Income Tax Act 2007. Under these provisions it is a requirement that not more than 15% of the Company's gross assets be invested in the securities of any one company or group (aggregating for this purpose any existing holding in the company concerned). From time to time, however, within the portfolio of fixed-interest securities, more than 15% of the Company's gross assets may be invested in a single Government stock (e.g. a short-dated gilt).

Board of Directors

Robert Wright, chairman, has been involved in the successful creation, development and sale of a number of businesses as an active entrepreneur and manager. He was part-time executive chairman of City Flyer Express Limited, which was sold to British Airways. He is also a director of Positek Limited, an unquoted position sensor business, and non-executive director of Wizzair Limited, an airline based in central Europe deploying the low-cost air carrier model.

Alan Lamb, has broad experience in the management of technology businesses through formation, organic growth and acquisitions. He founded Flexion, Inc. in 1998 to provide new generation communication systems for smaller businesses. Previously, he founded Airtech Computer Security Limited and was a divisional managing director at Racal Electronics plc after Airtech was acquired to form a successful group, delivering secure electronic payments solutions. Recently he has focused on developing spin-out companies from UK universities.

Jayesh Patel, was part of the founding team at SPARK and is currently responsible for the investments in IMI, Skinkers, Complinet, MarketClusters, Unanimis, OpenX and Gambling Compliance. He was previously involved in Kobalt, Firebox, elata and mblox and has led a number of past exits. He was previously a Director of NewMedia Investors and held executive positions at UBS Warburg and BSkyB. He qualified as a Chartered Accountant with KPMG and holds degrees from INSEAD and the London School of Economics. Appointed to the Spark Ventures plc Board on 30 January 2004 and appointed to the Company Board on 10 March 2008.

Patrick Seely, is managing director of Mooreland Partners, providing investment banking services to technology companies, and co-founder of Mooreland's European Practice. He is a former partner at Broadview Holidays, a global information technology M & A advisory investment forum. Prior to joining Broadview, he was a founder of Barclays de Zoete Wedd's communications software M & A practice. He is also non-executive chairman of investee company Celona Technologies Limited.

All the Directors are non-executive and Robert Wright, Alan Lamb and Patrick Seely are independent of the Manager. At the forthcoming Annual General Meeting in accordance with the Company's Articles of Association, Patrick Seely, having been appointed on 27 November 2008, offers himself for election and Robert Wright offers himself for re-election by rotation and in accordance with the Listing Rules Jay Patel offers himself for annual re-election.

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Activities and status

The principal activity of the Company during the year was the making of equity investments, mainly in unquoted companies. On 25 March 2009 the Company was granted annual approval by HM Revenue & Customs as a Venture Capital Trust in accordance with Section 274 of the Income Tax Act 2007. In the opinion of the Directors, the Company has conducted its affairs for the year ended 31 December 2008 so as to enable it to continue to obtain such approval. The Company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988.

The Company's ordinary shares of 1p each have been listed on the Daily Official List of the UK Listing Authority since 10 November 2000.

Merger with SPARK VCT 3 plc

On 27 November 2008 the High Court sanctioned a Scheme of Arrangement for the merger of the Company and SPARK VCT 3 plc. Under the terms of the Scheme of Arrangement the Formula Asset Values ("FAVs") per share of the Company and SPARK VCT 3 plc were calculated as at 19 November 2008, as 39.64p and 57.93p respectively.

On the basis of the resulting FAV ratios, the shareholders of SPARK VCT 3 plc on the register on the close of business on 26 November 2008 received 1.4613 new ordinary shares in the Company for every one share held by them in SPARK VCT 3 plc. Dealings in new shares issued by the Company commenced on 27 November 2008. Following the merger, the Company had 78,534,876 ordinary shares in issue. Following the merger the assets of SPARK VCT 3 plc were transferred to the Company.

Business review

The Business review which is required by Section 234ZZB of the Companies Act 1985 is set out on page 6 and is included in the Directors' report by reference.

Financial results and dividends

The net loss attributable to shareholders for the year ended 31 December 2008 was £5,233,000 (fourteen months ended 31 December 2007: loss of £8,817,000). A final dividend in respect of the year ended 31 December 2007 of 1.0p per share, equivalent to £467,000, was paid on 24 June 2008.

As at 31 December 2008, the Company had accumulated net losses on revaluations of £9,937,000 (31 December 2007: net losses of £4,701,000) and retained a positive balance on its profit and loss account of £3,518,000 (31 December 2007: positive balance of £2,416,000). During the year a transfer of £1,566,000 has been made from the special reserve to the profit and loss account to offset losses arising in the year, including £154,000 representing write-off of venture capital investments during the year and £137,000 representing losses of prior years now considered to represent an impairment in value: see note 15.

Share capital

In accordance with CA85 Schedule 7 paragraph 13, the Directors provide the following information about the Company's securities.

The Company's capital structure is shown on page 37. The shares carry a right to receive discretionary dividends. Interim dividends are determined by the Directors, whereas the proposed final dividend is subject to shareholder approval. On a winding up, after meeting the liabilities of the Company, the surplus assets will be paid to ordinary shareholders in proportion to their shareholdings. Information regarding substantial shareholdings is disclosed on page 20.

On a show of hands, every shareholder who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, and every proxy for any shareholder (regardless of the number of shareholders for whom he is a proxy), shall have one vote on a show of hands. On a poll every shareholder present in person or by proxy or by representative (in the case of a corporate member) shall have one vote for each share of which he is the holder, proxy or representative. Instruments appointing a proxy to vote at a general meeting of the Company have to be executed in accordance with the Company's articles of association, and delivered to the Company or such other place specified in the notice convening the meeting not less than 48 hours before the time that the meeting is to commence.

The Company's articles can be amended only by a special resolution of the members, requiring a majority of not less than 75% of such members as vote in person or by proxy.

Information about the appointment of directors, their terms and period of appointment, and their re-election are given in the corporate governance statement on page 22. Their existing power to authorise and allot shares and to repurchase equity securities, and the resolution to renew this facility, are documented in the AGM resolutions on page 44.

Purchase and cancellation of shares

During the year 1,227,348, representing 2.6% of the issued share capital, ordinary shares of 1p each were bought in by the Company for cancellation at a total cost of £394,722. The impact on the net asset value was to increase it by 0.3 pence per share. The purpose of the share buy-backs was to satisfy demand from those shareholders who sought to sell their shares during the year, given that there is a very limited secondary market for shares in Venture Capital Trusts generally. The Company may be able to buy back limited volumes of its shares from time to time. However its ability to do so may be constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA.

Directors

The Directors of the Company at 31 December 2008 and their interests in the issued ordinary shares of 1p each of the Company at that date and as at the date of this report were as follows:

	31 December 2008	31 December 2007
RA Wright (Chairman)	**100,000**	100,000
APM Lamb	**21,646**	21,646
JR Patel (appointed 10 March 2008)	**–**	–
PM Seely (appointed 27 November 2008)	**–**	–

In addition RE Burger served as a Director until his resignation on 6 October 2008, APG Holmes served until his resignation on 20 June 2008 and JA Spooner served until his resignation on 10 March 2008.

All of the Directors' share interests shown above were held beneficially and no right to subscribe for shares in the Company was granted to, or exercised by, any Director during the year.

JR Patel is a director of SPARK Venture Management Limited ("SVML"), the Manager. Save for the management agreement referred to in note 4 of the financial statements, no contracts subsisted during or at the end of the year in which any Director was materially interested. Disclosures required by Financial Reporting Standard (FRS) 8, "Related Party Disclosures" are set out in note 20 of the financial statements.

Investment manager

SVML is the Manager to the Company. The principal terms of the Company's management agreement with SVML as applicable during the year ended 31 December 2008 are set out in note 4 of the financial statements and with effect from 27 November 2008 as part of the merger of the Company with SPARK VCT 3 plc, the management agreement was amended so that the investment management fee would be reduced to the extent that the annual running costs (excluding irrecoverable VAT) of the Company does not exceed 3.0 per cent of year end net assets.

The suitability of the position of the Manager is under continuous assessment by the Directors. In the opinion of the Directors the continuing appointment of the Manager on the terms set out in the management agreement is in the interests of the shareholders as a whole.

Performance measurement

It is the responsibility of the Manager to seek the best investments and to manage the portfolio in the most beneficial way to achieve the highest returns for shareholders. The Board reviews investment activity and the performance of the Company on a continuous basis. Each Director receives a detailed quarterly report from the Manager, including management accounts and progress reports on the investee companies. The net asset value of the Company's shares is announced quarterly via a regulatory news service: see page 47 for details.

The Board considers total return to shareholders to be the key performance indicator: this is given on page 1. Total return is a combination of net asset value and amounts returned to shareholders by way of dividend. This measure does not reflect the tax benefits available to shareholders at the time of their initial investment. Whilst it is appropriate to consider the performance of the Company relative to its peers, which is a review undertaken by the Board, a direct comparison is not always appropriate or relevant given the Company's niche investment focus and there are no particularly relevant indices with which to compare the performance of the Company.

The Board is aware that share price performance is the most important factor to many of the Company's shareholders. Share price performance is linked to movements in net asset value, but an overriding factor is the very limited secondary market for VCT shares generally and the share price will typically be at a discount to net asset value. The Board undertakes a regular review of the level of the discount and consideration is given to ways in which share price performance may be enhanced.

Principal risks and how the Board seeks to mitigate them

The Company's assets consist principally of unquoted venture capital investments (mainly in equities), quoted venture capital investments (in equities) and listed investments more generally: its main area of risk therefore relates to investment selection and the subsequent performance of the underlying businesses. Risks are inherent in venture capital investment, particularly in early stage companies. The specific key risks faced by the Company, together with the Board's approach to mitigation of operational and regulatory risks are as set out below. Information in respect of risks associated with financial instruments held by the Company is provided in note 19 to the financial statements.

Objective, strategy and investment performance

The Board regularly reviews the investment policy in relation to market and economic conditions and the operation of the Company's peers. The Board receives regular reporting allowing it to monitor the Company's investment performance and its compliance with the investment policy. The Manager regularly presents to the Board and detailed quarterly progress reports on the investee companies are circulated to the Board and considered at the quarterly Board meetings. The rationale for individual investment selection is documented prior to the making of an investment. This documentation is also circulated to the Board.

Regulatory - compliance with the Venture Capital Trust rules

A breach of the Venture Capital Trust rules could result in HM Revenue and Customs withdrawing the Company's VCT approval. If this approval were to be withdrawn, the Company would lose its VCT status and all tax reliefs, including those available to shareholders, would be likely to be cancelled, some possibly with retrospective effect. The Board and the Manager frequently review compliance with the Venture Capital Trust rules. Information on the Company's continued compliance with the relevant rules and regulations is formally reported to the Board on a regular basis.

Operational

All proposed investment decisions are notified by the Manager to the Board prior to a decision to invest being made and all significant transactions and income and expenditure are reported to the Board. The Board regularly considers all operational risks and the measures in place to control them. The Board ensures that satisfactory assurances are received from the Manager. The Manager produces quarterly reports for review by the Company's Audit Committee and representatives of the Manager are available to attend meetings in person if required.

Creditor payment policy

The Company's payment policy is to ensure settlement of supplier invoices in accordance with their standard terms. At 31 December 2008 there were no days billings from the suppliers of services outstanding (31 December 2007: nil).

Substantial shareholdings

As at 31 December 2008 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3% of any class of the issued share capital.

Audit information

The Directors holding office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of this information.

Annual General Meeting

The Annual General Meeting will be held at Central Court, 25 Southampton Buildings, London, WC2A 1AL an 7 May 2009 at 11:00 a.m.

The Notice of Annual General Meeting is set out at the end of this document. In addition to ordinary resolutions relating to the adoption of the annual report and accounts, the re-election of Directors and the re-appointment of Grant Thornton UK LLP as auditor, the following resolutions are proposed:

Authority to allot shares (Resolution 7 – ordinary resolution)

This resolution proposes to renew the Directors' authority to allot relevant securities (as defined in the Companies Act 1985) of the Company. The maximum number of relevant securities that the Directors could allot under this authority is 21,465,124, which represents the total unissued share capital of the Company. The Directors have no present intention to exercise this authority. The authority will lapse five years after it is passed.

Authority for the disapplication of pre-emption rights (Resolution 8 – special resolution)

This resolution proposes to renew the Directors' power to allot equity securities for cash up to an aggregate nominal amount of £78,534.88 (being 10% of the Company's current issued share capital) without first offering the securities to existing shareholders. The Directors consider that it may in certain circumstances be in the best interests of the Company to allot shares for cash otherwise than pro rata to existing shareholders.

Authority for the Company to purchase its own shares (Resolution 9 – special resolution)

This resolution proposes to renew the existing power of the Company to purchase its own shares up to a maximum number of 7,853,488 shares, which represents 10% of the total number of shares currently in issue. The Directors consider that it may in certain circumstances be advantageous for the Company to be able to purchase its own shares. Occasional market purchases by the Company of its own shares could provide an additional measure of liquidity in the market for the Company's shares and can enhance the net asset value per share for the Company's remaining shareholders. The maximum price that may be paid for an ordinary share will be an amount which is not more than 5% above the average of the mid-market quotations of the ordinary shares as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the date of purchase. Shares that are purchased will be cancelled. The power will be exercised only if, in the opinion of the Directors, a purchase by the Company of its own shares would be in the interests of the Company's shareholders.

Going concern

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forth coming Annual General Meeting.

By order of the Board

NT Tran
Secretary
9 April 2009

Statement of corporate governance

Except where stated, the Board considers that the Company has complied throughout the period with the provisions of Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 and the application of those provisions is set out below.

The Board

As part of the merger of the Company and SPARK VCT 3 plc, RE Burger resigned from and PM Seely was appointed to the Board of the Company. Following the merger, the Board consists of four non-executive Directors, three of whom are independent of the Company's Investment Manager. The Company has no staff and consequently the provisions of the Combined Code which relate to the division of responsibilities between a chairman and a chief executive officer are not applicable. The Board has considered whether it is appropriate to appoint a senior independent director and have concluded that, due to the size of the Board, the size of the business and its lack of complexity, it is inappropriate for the time being. The appointment of a senior independent director is reviewed annually.

The Board has a formal schedule of matters reserved to it and meets between four and five times each year and on other occasions as required. The Board as a whole is responsible for the appointment of its own members and professional advisers (neither a nominations committee nor a remuneration committee has been appointed as the Directors consider the Board to be small). Other matters specifically reserved to the Board include banking arrangements, proposals for changes to the Articles and related party transactions. In addition, the Board carefully reviews the allocation of investments made by the Manager between the Company and its other managed funds, in accordance with established guidelines. The Board receives the minutes of the investment committee of the Manager that meets weekly to discuss the venture capital portfolio and receives a detailed quarterly report from the Manager, including management accounts and progress reports on the investee companies. Any additional information is supplied on request.

The attendance of individual Directors at Board and Committee meetings during the year ended 31 December 2008 was as follows:

	Scheduled Board meetings	Scheduled Audit Committee meetings
RA Wright (Chairman)	9/9	2/2
RE Burger (resigned 6 October 2008)	6/9	2/2
APG Holmes (resigned 20 June 2008)	2/9	n/a
APM Lamb	9/9	2/2
JR Patel (appointed 10 March 2008)	8/9	n/a
PM Seely (appointed 27 November 2008)	n/a	n/a
JA Spooner (resigned 10 March 2008)	1/9	n/a

In addition to the meetings referred to above, a number of further Board, Committee and individual meetings were held during the year to deal with matters arising in the ordinary course of the Company's business.

The Board has considered whether each Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, a Director's judgement and has concluded that all of the Directors are independent of the Manager with the exception of JR Patel. There is a formal process for evaluating the performance of the Board. Under this arrangement the Board, led by the Chairman, has conducted a performance evaluation to determine whether it, its Committees and individual Directors are functioning effectively. A list of questions based on the 2006 Combined Code has been used to provide a framework for this evaluation process. Particular attention is paid to those Directors who are due for reappointment. The results of the overall evaluation process are communicated to the Board and followed up with appropriate action, if necessary. Performance evaluations are conducted annually.

The Articles of Association require that all Directors be subject to re-election procedures by rotation at the Annual General Meeting ("AGM"). All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years and annually in the case of Directors who have served for longer than nine years. The Articles of Association also require that any Directors appointed by the Board during the year shall hold office until the following AGM and shall then be eligible for re-election.

Accordingly, PM Seely, having been appointed to the Board during the year, is proposed for election and RA Wright is proposed for re-election by rotation. In addition, in accordance with the Listing Rules, JR Patel offers himself for annual re-election. As part of the merger process the Directors gave careful consideration to PM Seely's appointment to the Board and believe he has the expertise and experience to make a valuable contribution to the Company. The Directors, therefore, believe that PM Seely should be elected to the Board. The Chairman's own evaluation is performed by the other Directors, who consider that his performance continues to be effective, that he continues to demonstrate commitment to his role.

Under the terms of appointment of all Directors, the liability of the Company on termination of a directorship is limited to any unpaid fees due at the date of termination.

All Directors have access to the advice and services of the Company Secretary and are able to take independent professional advice in furtherance of their duties if necessary. Information regarding the terms of appointment of the non-executive Directors is available on request.

The Audit Committee

The Audit Committee consists of the three independent non-executive Directors. Prior to the merger it was chaired by RA Wright who is also Chairman of the Board. Following the merger the Audit Committee is now chaired by APM Lamb in accordance with the Combined Code on Corporate Governance. Written terms of reference have been constituted for the Audit Committee and are available to shareholders on request. The Audit Committee meets at least twice a year to review the interim management statements, half yearly financial report, annual report and accounts and the terms of appointment of the auditor together with its remuneration. The Committee undertakes a periodic review of the terms of the management agreement with SVML. The auditor, Grant Thornton UK LLP, also performs tax services, monitors compliance with the Venture Capital Trust provisions and advises on accounting issues. The Audit Committee reviews the need for non-audit services and authorises such on a case-by-case basis, having consideration to the cost effectiveness of the services and the independence and objectivity of the auditor. The Audit Committee has satisfied itself that the auditor is independent and that its objectivity is unimpaired.

Internal control

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. It has adopted a risk-based approach to identifying the key internal controls, including financial, operational and compliance controls and risk management systems, the performance of which has subsequently been monitored throughout the year and up to the date of approval of this report. The key risks and internal controls are re-appraised annually by the Directors and the appraisal 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. No significant failings or weaknesses were identified from this process.

The need for an internal audit function has been considered by the Board and will be reconsidered annually. Due to the size of the business and its lack of complexity, the Directors consider that the establishment of an internal audit function is unnecessary.

Responsibility for accounting, secretarial services and custody of documents of title relating to investments has been contractually delegated to SVML under the terms of the management agreement. SVML, which is authorised and regulated by the Financial Services Authority, has established its own system of internal controls in relation to these matters, on which it has reported to the Board.

Relations with shareholders

The Company does not have any major shareholders.

This year's Annual General Meeting will be held on 7 May 2009 when shareholders will have the opportunity to meet the Board. The Notice of Meeting is set out on page 44. Separate resolutions are proposed at the AGM on each substantially separate issue. Proxy votes are counted. In order to comply with the Combined Code, proxy votes will be announced at the AGM, following each vote on a show of hands, except in the event of a poll being called.

In addition to the formal business of the AGM, a brief presentation will be given by a representative of the Manager. Representatives of the Manager, the Board and the Audit Committee will be available to answer any questions that a shareholder may have. In addition to the above, the Board is always pleased to respond to any written queries made by shareholders during the course of the year.

Directors' remuneration report

This report is prepared in accordance with Schedule 7A of the Companies Act 1985. The Company's auditor is required to report on certain information contained within this report (shown in the box below). The auditor's opinion is included within the auditor's report commencing on page 42.

The Board as a whole considers Directors' remuneration and a remuneration committee has not been established. The Board has access to independent advice where it considers it appropriate. The Board's policy is that the remuneration of non-executive Directors should reflect time spent and the responsibilities borne by the Directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The Company's Articles of Association limit fees payable to the Directors to £125,000 in aggregate. Directors' fees payable during the year totalled £48,000 as set out below and in note 6 to the financial statements.

No Director's or former Director's remuneration is performance related and Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits. It is considered appropriate that no other aspect of any Director's remuneration should be performance related in light of their non-executive status. It is the intention of the Board that the above remuneration policy will continue to apply in the forthcoming financial year and in subsequent years.

The Directors consider that total return (defined as the net asset value per share of the Company plus cumulative dividends paid) to ordinary shareholders since the date of launch of the Company is the most appropriate indicator of the performance of the Company. The total return (excluding tax benefits of 20p per share) of 43.3p, which is given on page 1, can be compared against the issue price of 100p at the date of launch in November 2000.

Fees payable in respect of services provided by the Directors who served during the year are listed below.

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
RA Wright	**20**	22
RE Burger (resigned 6 October 2008)	**12**	17
APG Holmes (resigned 20 June 2008)	**–**	–
APM Lamb	**15**	18
JR Patel (appointed 10 March 2008)	**–**	–
PM Seely (appointed 27 November 2008)	**1**	–
JA Spooner (1) (resigned 10 March 2008)	**–**	–
	48	57

None of the Directors received any other remuneration or benefit during the year except as disclosed in the financial statements.

(1) APG Holmes and JA Spooner and JR Patel waived their entitlement to Directors' fees for all accounting periods ended on, or prior to, 31 December 2008.

There is no notice period stipulated in the service contracts with any of the Directors. No compensation is payable to Directors on leaving office.

The Directors' remuneration report forms part of the annual report and accounts. These were approved by the Board of Directors on 9 April 2009 and signed on its behalf by the Chairman.

An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

Directors' responsibility statement

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. Under that law the Directors have elected to prepare the financial statements in accordance with UK accounting standards.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The financial statements are published on the www.sparkvct.com website, which is a website maintained by the Manager. The maintenance and integrity of the website maintained by the Manager is, so far as it relates to the Company, the responsibility of the Manager. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the auditor accepts 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 their jurisdiction.

Under applicable law and regulations, the Directors are responsible for preparing a Directors' report, Directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The Directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with applicable UK accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

On behalf of the Board

Robert Wright
Chairman
9 April 2009

Profit and loss account for the year to 31 December 2008

	Notes	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Loss on investments at fair value through profit or loss	10(d)	**(4,610)**	(7,862)
Income	2	**235**	307
Recoverable VAT	3	**400**	–
Investment management fee	4	**(592)**	(924)
Other expenses	5	**(661)**	(332)
Loss on operating activities		**(5,228)**	(8,811)
Interest payable on loan notes	13	**(5)**	(6)
Loss on ordinary activities before taxation		**(5,233)**	(8,817)
Tax on loss on ordinary activities	7	**–**	–
Loss on ordinary activities after taxation		**(5,233)**	(8,817)
Basic and fully diluted loss per share	9	**(9.4)p**	(18.5)p

All items in the above statement derive from continuing operations.

The Company has only one class of business and derives its income from investments made in shares and securities and from bank deposits.

There are no gains and losses for the year other than those passing through the profit and loss account of the Company.

The accompanying notes are an integral part of this statement.

Balance sheet as at 31 December 2008

	Notes	31 December 2008 £'000	31 December 2007 £'000
Fixed assets			
Investments at fair value through profit or loss	10(a)	**20,489**	21,534
Current assets			
Debtors	11	**1,364**	14
Cash at bank		**7,139**	599
		8,503	613
Creditors: amounts falling due within one year	12	**(397)**	(302)
Net current assets		**8,106**	311
Creditors: amounts falling due after more than one year	13	**–**	(100)
Net assets		**28,595**	21,745
Capital and reserves			
Called-up share capital	14	**785**	467
Share premium account	15	**339**	339
Capital redemption reserve	15	**79**	67
Special reserve	15	**21,196**	23,157
Revaluation reserve	15	**(9,937)**	(4,701)
Merger reserve	15	**12,615**	–
Profit and loss account	15	**3,518**	2,416
Total equity shareholders' funds		**28,595**	21,745
Net asset value per share	15	**36.4p**	46.5p

The financial statements on pages 26 to 41 were approved by the Directors on 9 April 2009 and were signed on their behalf by:

Robert Wright
Chairman

The accompanying notes are an integral part of this statement.

Cash flow statement for the year to 31 December 2008

	Notes	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Cash outflow from operating activities	17	**(1,954)**	(976)
Financial investment			
Purchase of venture capital investments	10(b)	**(1,584)**	(4,396)
Purchase of listed equities and fixed interest investments	10(b)	**(158)**	(645)
Sale of venture capital investments	10(b)	**4,381**	982
Sale/redemption of listed equity and fixed interest investments	10(b)	**2,933**	5,287
Amounts recovered from investments previously written off	10(d)	**97**	–
Total net financial investment		**5,669**	1,228
Equity dividends paid	8	**(467)**	(487)
Financing			
Funds received as part of merger	10(e)	**3,792**	–
Buy-back of ordinary shares	15	**(395)**	(907)
Issue of shares under the terms of the dividend reinvestment scheme		**–**	32
Redemption of loan notes	13	**(100)**	–
Net interest on loan notes		**(5)**	(6)
Total financing		**3,292**	(881)
Increase/(decrease) in cash for the period		**6,540**	(1,116)

Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash for the period	**6,540**	(1,116)
Net funds at the start of the period	**599**	1,715
Net funds at the end of the period	**7,139**	599

The accompanying notes are an integral part of this statement.

Net funds comprise cash at bank and on short term deposit.

Reconciliation of movements in shareholders' funds
for the year to 31 December 2008

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
At 1 November 2006	485	309	47	33,730	(4,781)	–	2,134	31,924
Shares issued under the dividend reinvestment scheme	2	30	–	–	–	–	–	32
Shares purchased for cancellation	(20)	–	20	(907)	–	–	–	(907)
Realisation of prior years' net losses on investments	–	–	–	–	3,317		(3,317)	–
Transfer from special reserve to profit and loss account	–	–	–	(9,666)	–	–	9,666	–
Net loss on revaluation of investments	–	–	–	–	(3,237)	–	3,237	–
Loss on ordinary activities after taxation	–	–	–	–	–	–	(8,817)	(8,817)
Dividends paid	–	–	–	–	–	–	(487)	(487)
At 31 December 2007	467	339	67	23,157	(4,701)	–	2,416	21,745
Shares issued in connection with the merger	330	–	–	–	–	12,615	–	12,945
Shares purchased for cancellation	(12)	–	12	(395)	–		–	(395)
Realisation of prior years' net gains on investments	–	–	–	–	(1,306)		1,306	–
Transfer from Special reserve to profit and loss account			–	(1,566)	–		1,566	–
Net loss on revaluation of investments	–	–	–	–	(3,930)		3,930	–
Loss on ordinary activities after taxation	–	–	–	–	–		(5,233)	(5,233)
Dividends paid	–	–	–	–	–		(467)	(467)
At 31 December 2008	**785**	**339**	**79**	**21,196**	**(9,937)**	**12,615**	**3,518**	**28,595**

The accompanying notes are an integral part of these statements.

Notes to the financial statements

1 Accounting policies

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

Basis of accounting

These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments, and in accordance with applicable UK accounting standards.

Consolidation

On 27 November 2008, the Company acquired all the shares in SPARK VCT 3 plc (VCT 3), by means of a Scheme of Arrangement. Under the Scheme, all the shares in VCT 3 were cancelled (excluding one share) and new shares in the Company were issued by the Company to the shareholders of VCT 3.

In accordance with the prospectus, the Company has entered into a transfer agreement with VCT 3, to transfer the subsidiary's assets and liabilities to the Company. The Company is excluded from consolidation on the grounds that its inclusion is not material for the purposes of giving a true and fair view. Since VCT 3 is the only subsidiary undertaking, consolidated financial statements are not presented. The book value of the assets and liabilities transferred equates to the fair values. There are no adjustments required for accounting policies or other matters and no revaluations.

Investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Board.

Accordingly, upon initial recognition (using trade date accounting) the investments are designated by the Company as 'at fair value through profit or loss'. They are included initially at fair value, which is taken to be their cost (excluding expenses incidental to the acquisition which are written off to the profit and loss account).

Subsequently, the investments are valued at 'fair value', which is measured as follows:

- UK listed and AIM-traded investments are valued at their bid prices at the close of the year as issued by the London Stock Exchange; investments listed overseas are valued at bid prices (where a bid price is available) or otherwise at fair value based on published price quotations.

- unquoted investments, where there is not an active market, are valued using an appropriate valuation technique so as to establish what the transaction price would have been at the balance sheet date. Such investments are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Indicators of fair value are derived using established methodologies including earnings multiples, prices of recent investment rounds, net assets and industry valuation benchmarks. Where the Company has an investment in an early stage enterprise, the price of a recent investment round is often the most appropriate approach to determining fair value. In situations where a period of time has elapsed since the date of the most recent transaction, consideration is given to the circumstances of the investee company since that date in determining fair value. This includes consideration of whether there is any evidence of deterioration or strong definable evidence of an increase in value. In the absence of these indicators, the investment in question is valued at the amount reported at the previous reporting date. Examples of events or changes that could indicate such a impairment include:

  - the performance and/or prospects of the underlying business are significantly below the expectations on which the investment was based;

  - a significant adverse change either in the investee company's business or in the technological, market, economic, legal or regulatory environment in which the business operates; or

  - market conditions have deteriorated, which may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors.

In accordance with FRS 9 "Associates and Joint Ventures", where the Company holds more than 20% but less than 50% of an investment and the investment is not a subsidiary, it is not treated as an associated company.

Gains and losses on investments
When the Company revalues its investments during an accounting period, any gains or losses are recognised in the profit and loss account within 'gains/(losses) on investments at fair value through profit or loss'. Any losses on investments that are not considered by the Directors to reflect an impairment in the value of the investment are subsequently transferred from/to the revaluation reserve. When an investment is sold or the Directors consider that its value is impaired, any amount held in the revaluation reserve is transferred to the profit and loss account. Where the overall result on the sale of investment is a loss or there is an impairment in the value of an investment, a transfer is then made from the special reserve to the profit and loss account, equal to the amount of such losses.

Income
Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Income receivable on unquoted equity and non-equity shares and loan notes are brought into account when the Company's right to receive payment and expect settlement is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis (including amortisation of any premium or discount to redemption) so as to reflect the effective interest rate, provided there is no reasonable doubt that payment will be received in due course.

Expenses
All expenses, including expenses incidental to the acquisition or disposal of an investment, are accounted for on an accruals basis and are charged wholly to the profit and loss account. Any costs associated with the issue of shares are charged to the share premium account. Any costs associated with the buy-back of shares are charged to the special reserve.

Taxation
Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the period. The Company has not provided for deferred tax on any capital gains/losses arising on the revaluation or disposal of investments as these items are not subject to tax whilst the Company maintains its Venture Capital Trust status. The Company intends to continue to meet the conditions required for it to hold approved Venture Capital Trust status for the foreseeable future. Deferred tax assets in respect of surplus management expenses are only recognised to the extent that such assets are likely to be recoverable against future taxable profits of the Company.

Foreign exchange
The currency of the primary economic environment in which the Company operates (the functional currency) is pounds sterling ("Sterling"), which is also the presentational currency of the Company. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each balance sheet date, monetary items and non-monetary assets and liabilities that are measured at fair value, which are denominated in foreign currencies, are retranslated at the closing rates of exchange. Exchange differences arising on settlement of monetary items and from retranslating at the balance sheet date of investments and other financial instruments measured at fair value through profit or loss, and other monetary items, are included in the profit and loss account. Exchange differences relating to investments and other financial instruments measured at fair value are subsequently included in the transfer to the revaluation reserve.

Dividends
Dividends payable to equity shareholders are recognised in the reconciliation of movements in shareholders' funds when they are paid, or have been approved by shareholders in the case of a final dividend and become a liability of the Company.

2 Income

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Dividend income		
– Unlisted companies	–	6
– Listed companies - UK	**28**	99
– Listed companies - foreign	**31**	40
Interest receivable		
– Loans to venture capital investee companies	**1**	84
– Bank deposits	**34**	55
Other income	**141**	23
	235	307

3 Recoverable VAT

HM Revenue and Customs (HMRC) announced in March 2008, following the European Court of Justice decision in the JPMorgan Claverhouse case, that the provision of management services to Venture Capital Trusts is exempt from VAT. Accordingly the Manager ceased to charge VAT on management fees payable by the Company with effect from 30 September 2008.

On the basis of information supplied by the Manager and discussions with the Company's professional advisors, the Directors consider it virtually certain that the Company will in the foreseeable future obtain a repayment of VAT of not less than £400,000. This amount has been recognised as a separate item in the income statement. It is possible that additional amounts of VAT will be recoverable in due course but the Directors are unable at this stage to quantify the sums involved.

4 Investment management fee

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Investment management fee	**505**	801
Irrecoverable VAT	**87**	123
	592	924

SVML provides investment management services to the Company under an agreement dated 30 October 2000.

SVML is a wholly owned subsidiary of SPARK Ventures plc, a company of which JR Patel is an executive director and a beneficial shareholder. JR Patel is an executive director of SVML.

The management fee, which is calculated monthly and is payable quarterly in advance, is levied at a rate of 2.5% on the Company's net assets. As from the effective date of the merger with SPARK VCT 3 plc, the investment management agreement is amended so that the management fee will be reduced to the extent that the annual running costs (excluding irrecoverable VAT) of the Company does not exceed 3.0% of year end net assets. The investment management agreement continues to be terminable by the Company or the Manager on a notice period the longer of (i) twelve months and (ii) the period from the date on which notice is given to 9 November 2010. If such notice is given on or after 9 November 2010, the notice period will be twelve months. There are no provisions for compensation payable in the event of termination.

Irrecoverable VAT was charged on the investment management fee up to 30 September 2008, as mentioned in note 3, in line with the ruling against HMRC. This amount is part of the total claimed back from HMRC representing VAT paid on management fees for the three years prior to 30 September 2008.

SVML also provides administrative and secretarial services to the Company for which it was entitled to a fee of £61,000 for the period (fourteen months ended 31 December 2007: £67,000) adjusted annually in line with changes in the Retail Price Index.

5 Other expenses

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Administrative and secretarial services	**61**	67
Directors' remuneration (note 6)	**48**	57
Auditor's remuneration		
– Fees payable to the Company's auditor for audit of the financial statements	**17**	16
– Fees payable to the Company's auditor for other services relating to the merger	**35**	–
– Fees payable to the Company's auditor and its associates for other services relating to tax	**16**	8
Legal and professional expenses, including merger costs	**326**	32
Insurance	**7**	8
UKLA, LSE and registrar's fees	**29**	20
Transaction costs	**15**	29
Irrecoverable VAT	**55**	41
Other	**52**	54
	661	332

6 Directors' remuneration

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Amounts payable to Directors or companies controlled by them	**48**	57

The total fees paid or payable in respect of individual Directors for the period is detailed in the Directors' remuneration report on page 24.

7 Tax on ordinary activities

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Corporation tax	**–**	–

Reconciliation of loss on ordinary activities to taxation

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Loss on ordinary activities before taxation	**(5,233)**	(8,817)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (31 December 2007: 30%)	**(1,465)**	(2,645)
Effects of:		
Non taxable items – UK dividends and net losses on investments	**1,283**	2,327
Unutilised management expenses	**182**	318
	–	–

The Company has excess trading losses of £5,652,000 (2007: £4,616,000) that are available for offset against future profits. A deferred tax asset of £1,583,000 (2007: £1,385,000) has not been recognised in respect of those losses as they will be recoverable only to the extent that the Company has sufficient future taxable profits.

8 Dividends

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Final dividend: 1p per share paid on 24 June 2008	**467**	–
Final dividend: 1p per share paid on 12 March 2007	**–**	487
	467	487

9 Earnings per share

The loss per share of 9.4p (fourteen months ended 31 December 2007: loss 18.5p) is based on the loss on ordinary activities after tax of £5,233,000 (fourteen months ended 31 December 2007: loss £8,817,000) and on the weighted average number of ordinary shares in issue during the period of 55,670,213 (fourteen months ended 31 December 2007: 47,714,817).

There is no dilution effect in respect of the year ended 31 December 2008 (31 December 2007: nil).

10 Investments

10(a) Summary of investments

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Venture capital investments	**20,489**	18,322
Listed equity investments	**–**	3,212
	20,489	21,534

10(b) Movements in investments

	Venture capital investments £'000	Listed equity investments £'000	Total £'000
Cost at 1 January 2008	23,999	2,236	26,235
Net (loss)/gain at 1 January 2008	(5,677)	976	(4,701)
Valuation at 1 January 2008	18,322	3,212	21,534
Movements in the period:			
Acquired as part of merger	9,234	–	9,234
Purchases at cost	1,584	158	1,742
Disposals			
–proceeds	(4,381)	(2,933)	(7,314)
–net losses on disposal	(186)	(437)	(623)
Impairment in value	(154)	–	(154)
Net loss on revaluation of investments	(3,930)	–	(3,930)
Valuation at 31 December 2008	**20,489**	**–**	**20,489**
Book cost at 31 December 2008	30,426	–	30,426
Net loss at 31 December 2008	(9,937)	–	(9,937)
Valuation at 31 December 2008	**20,489**	**–**	**20,489**

Amounts shown as cost represent acquisition cost, less any reduction made on account of impairment in value.

10(c) Venture capital investments

	Valuation at 01.01.08 £'000	Acquired in merger £'000	Additions £'000	Disposals £'000	Write-offs £'000	Other revaluations £'000	Valuation at 31.12.08 £'000
Fifteen largest venture capital investments at 31 December 2008							
Workshare Limited	2,591	1,037	–	–	–	(562)	3,066
Xention Limited	1,125	921	223	–	–	(454)	1,815
Oxford Immunotec Limited	1,194	515	93	–	–	–	1,802
Xtera Communications, Inc.	1,275	381	–	–	–	–	1,656
Uniservity Limited	700	700	–	–	–	–	1,400
Elateral Holdings Limited	479	–	–	–	–	570	1,049
Celona Technologies Limited	1,307	536	32	–	–	(892)	983
Vivacta Limited	286	570	–	–	–	–	856
Level Four Software Limited	95	683	17	–	–	–	795
Cluster Seven Limited	255	510	79	–	–	(79)	765
Isango! Limited	–	300	450	–	–	–	750
Sift Group Limited	698	–	–	–	–	–	698
Antenova Limited	779	158	177	–	–	(455)	659
Medigene AG *FRANKFURT*	676	197	–	(321)	–	64	616
Celldex Therapeutics, Inc *NASDAQ*	182	137	–	–	–	249	568
	11,642	6,645	1,071	(321)	–	(1,559)	17,478
Other unquoted venture capital investments	1,745	2,326	507	–	(154)	(1,874)	2,550
Other quoted venture capital investments	784	174	–	–	–	(497)	461
	14,171	9,145	1,578	(321)	(154)	(3,930)	20,489
Investments exited during the year	4,151	89	6	(4,246)	–	–	–
	18,322	**9,234**	**1,584**	**(4,567)**	**(154)**	**(3,930)**	**20,489**

10(d) Loss on investments

The overall loss on investments at fair value through profit or loss disclosed in the profit and loss account is analysed as follows:

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Net (loss)/gain on disposal	**(623)**	436
Recoveries made in respect of investments previously written off	**97**	–
Impairment in value of investments	**(154)**	(5,061)
Net loss on revaluation of investments	**(3,930)**	(3,237)
	(4,610)	(7,862)

'Net (loss)/gain on disposal represents the difference between proceeds received and the carrying values of those investments sold during the year.

10(e) Merger with SPARK VCT 3 plc

During the year the Company merged with SPARK VCT 3 plc by means of a Scheme of Arrangement ("Scheme") as reported in the directors' report on page 18.

The Scheme provided that the assets and liabilities of SPARK VCT 3 plc would be transferred to the Company immediately following the merger.The consideration was provided by way of loan which was then waived by SPARK VCT 3 plc in anticipation of the wind-up of that company.The costs of the Scheme were borne by both companies in an agreed manner as defined in the Scheme.

The merger has been accounted for under the acquisition method of accounting. The market in VCT shares is highly illiquid and in the opinion of the Directors, does not provide a reliable basis for valuing the share consideration issued.

The fair value of consideration issued is deemed to be the net asset value per share of SPARK VCT 2 plc shares at the time of acquisition as this is a more reliable estimate of fair value than the market price at that date.The assets and liabilities of SPARK VCT 3 plc acquired as set out below:

	SPARK VCT 3 plc £'000
Investments	9,234
Current Assets	
Debtors	127
Cash	3,792
	3,919
Current Liabilities	
Sundry creditors	(208)
Net current assets	3,711
Fair value of assets transferred	12,945
Consideration	12,945

In accordance with FRS6, the acquisition of the assets of SPARK VCT 3 plc was a substantial acquisition. A Summarised Statement of Total Return from 1 January 2008, the beginning of SPARK VCT 3 plc's financial year, to the effective date of the Scheme on the 27 November 2008 is set out below:

	SPARK VCT 3 plc Period 1 January 2008 to 27 November 2008 £'000	SPARK VCT 3 plc Twelve months to 31 December 2007 £'000
Loss on realisation of investments	(912)	(3,624)
Income	176	309
Investment management fee	(252)	(356)
Other expenses	(415)	(252)
Loss on ordinary activities after taxation	**(1,403)**	**(3,923)**

The aggregate amount of SPARK VCT 3 plc's capital and reserves as at 31 December 2008 is nil.

10(f) Significant holdings

Details of shareholdings in those companies where the Company's holding at 31 December 2008 represents more than 20% of the allotted equity share capital of any class; more than 20% of the allotted share capital; or more than 20% of the assets of the company itself, are given below. All of the companies are incorporated in Great Britain.

Company	Class of share	Number held	Proportion of class held
UniServity Limited	Ordinary shares (1p)	6,110	6.7%
	Series A Shares	50,198	58.3%

11 Debtors

	31.12.08 £'000	31.12.07 £'000
Other debtors	**1,220**	–
Prepayments and accrued income	**144**	14
	1,364	14

12 Creditors (amounts falling due within one year)

	31.12.08 £'000	31.12.07 £'000
Accruals	**355**	302
Other creditors	**42**	–
	397	302

13 Creditors (amounts falling due after more than one year)

During the year the £100,000 redeemable loan notes of the Company in issue at 31 December 2007, which were held by Quester Venture Participations Limited (a wholly owned subsidiary of the Manager) and a number of individuals (or related trusts of such individuals) who are shareholders and/or hold or held appointments with the SPARK group of companies, were redeemed.

These loan notes represented a management performance incentive arrangement largely held by former members of the Quester management team who were no longer employed by the Manager and were unlikely in current circumstances to result in any management performance incentive payments being made. Accordingly the Directors decided that the performance incentive scheme should be brought to an end. The loan notes subscribed by the participants were redeemed at par (together with the related entitlement to accrued interest) but no performance related payments were made.

14 Called-up share capital

	31.12.08 £'000	31.12.07 £'000
Authorised:		
100,000,000 (31.12.07: 100,000,000) ordinary shares of 1p	**1,000**	1,000
Allotted, issued and fully paid:		
78,534,876 (31.12.07: 46,715,525) ordinary shares of 1p	**785**	467

As part of the merger 33,046,699 ordinary shares were issued to former shareholders of SPARK VCT 3 plc.

The Company bought back for cancellation 1,227,348 ordinary shares, representing 2.6% of the opening issued share capital, at a cost of £394,722.

15 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Revaluation reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2008	339	67	23,157	(4,701)	–	2,416
Shares issued in connection with merger	–	–	–	–	12,615	–
Shares purchased for cancellation	–	12	(395)	–	–	–
Realisation of prior years' net gains on investments	–	–	–	(1,306)	–	1,306
Transfer from special reserve to profit and loss account	–	–	(1,566)	–	–	1 ,566
Loss on revaluation of investments	–	–	–	(3,930)	–	3,930
Loss on ordinary activities after taxation	–	–	–	–	–	(5,233)
Dividend	–	–	–	–	–	(467)
At 31 December 2008	**339**	**79**	**21,196**	**(9,937)**	**12,615**	**3,518**

The capital redemption reserve was created to reflect the repurchase and cancellation of shares.

The special reserve is a distributable reserve that was created following the cancellation of the share premium account. This reserve allows the Company, amongst other things, to fund the buy-back of its ordinary shares as and when it is considered by the Board to be in the best interests of shareholders and also to facilitate the payment of dividends to shareholders earlier than would otherwise have been possible as transfers can be made from this reserve to the profit and loss account to offset losses on disposal of investments and impairments in value of investments. Accordingly a transfer of £1,566,000 (including £154,000 representing impairments in value of investments during the year and £137,000 representing losses of previous years now treated as impairment in value) has been made from the special reserve to the profit and loss account.

16 Net asset value per share

The net asset value per share as at 31 December 2008 of 36.4p (31 December 2007: 46.5p) is based on net assets of £28,595,000 (31 December 2007: £21,745,000) divided by the 78,534,876 ordinary shares in issue at that date (31 December 2007: 46,715,525). There is no dilution effect in respect of the period ended 31 December 2008 (year ended 31 December 2007: nil).

17 Reconciliation of operating loss to net cash outflow from operating activities

	Twelve months to 31.12.08 £'000	Fourteen months to 31.12.07 £'000
Loss on operating activities	**(5,228)**	(8,811)
Loss on investments at fair value through profit or loss	**4,610**	7,862
(Increase)/decrease in debtors	**(1,224)**	134
Decrease in creditors	**(112)**	(161)
Cash outflow from operating activities	**(1,954)**	(976)

18 Commitments and guarantees

As at 31 December 2008 there were legal commitments totalling £80,000 (31 December 2007: £15,000) in respect of further funding to be provided to existing investee companies. There were no guarantees outstanding (31 December 2007: £nil).

19 Financial instruments

As a Venture Capital Trust the Company invests in unquoted and AIM-traded UK companies in accordance with the investment policy set out on page 16. In addition to its venture capital portfolio, which is invested mainly in technology-related companies in the TMT and healthcare sectors, the Company maintains liquidity balances in the form of cash, listed fixed interest securities and listed equities held for follow-on financing and new venture capital investment and debtors and creditors that arise directly from its operations. At 31 December 2008, 71.6% (£20.5 million) of the Company's net assets were invested in venture capital investments and 28.4% (£8.1 million) in liquidity balances.

In pursuing its investment policy, the Company is exposed to risks that could result in a reduction in the value of net assets and consequently funds available for distribution by way of dividend or for re-investment.

These risks and the management of them, which is the responsibility of the Manager and monitored by the Directors, are unchanged from the previous accounting period and are set out below.

Market risk

The fair value or the future cash flows of financial instruments held by the Company may fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk:

- Currency risk
  The Company has no significant financial instruments denominated in foreign currencies.

- Interest rate risk
  As the Company has no borrowings it only has limited interest rate risk. The impact is on income and operating cash flows and arises from changes in market interest rates.

  The assets that are exposed to interest rate risk are tabled below. Interest received on cash balances is at a margin over LIBOR or its foreign currency equivalent (2007: same). With interest income of £35,000 to 31 December 2008, any further downward or upward movement in interest rates is unlikely to be material.

- Other price risk
  Venture capital investments carry a significant risk of failure. The management of risk within the venture capital portfolio is addressed through careful investment selection, by diversification across different industry segments within the TMT and healthcare sectors, by maintaining a wide spread of holdings in terms of financing stage and by limitation of the size of individual holdings. There is a concentration of risk due to the focused investment policy. This risk is mitigated by the specialised expertise of the Manager. The Directors monitor the Manager's compliance with the investment policy, review and agree policies for managing this risk and monitor the overall level of risk on the investment portfolio on a regular basis.

  A movement of 7.5% (31 December 2007: 6.9%) (the annual average percent reduction in total return over the last five accounting periods of the Company) in the fair value of the total venture capital portfolio would result in a movement of £1,613,000 (31 December 2007: £1,264,000) in profit before tax, which would affect the net asset value by 2.05p (31 December 2007: 2.71p) per share.

Liquidity risk

The Company's assets comprise quoted and unquoted equity and non-equity shares, fixed income securities, short term money market investments and cash. Although the Company's AIM traded and unquoted investments are less liquid than securities listed on the London Stock Exchange, the Company has 28.4% of the investment portfolio invested in cash, short-term debtors and creditors and readily realisable securities, which are sufficient to meet any funding commitments that may arise. As at the year end, the Company had no borrowings.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss.

The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	31.12.08 £'000	31.12.07 £'000
Cash and cash equivalents	**7,139**	599
	7,139	599

The risk is managed as follows:

– cash at bank is held only with banks with high quality external credit ratings.

The Company also has an exposure to credit risk in respect of the loan stock investments it has made into investee companies, most of which have no security attached to them, and where they do, such security ranks beneath any bank debt that an investee company may owe.

These loan stock investments are made as part of the qualifying investments within the investment portfolio, and the risk management processes applied to the loan stock investments have already been set out under other price risk above.

Capital disclosures

The Company's objective is to deliver, as far as is consistent with venture capital investment, steady growth in the net asset value of the fund and in total return (net asset value plus cumulative dividends paid). This is unchanged from the previous accounting period.

The capital subscribed to the Company by original investors has been managed in accordance with the Company's objectives. The available capital at 31 December 2008 is £28.6 million (31 December 2007: £21.7 million) as shown in the balance sheet, which includes the Company's share capital and reserves.

The dividend policy of the Company is unchanged from that set out in the original prospectus dated 1 November 2000 and is to seek to maximise the dividend payable from available distributable profits. Owing to the nature of a VCT, dividends payable can vary considerably from time to time depending both on the level of income received from investments and, more significantly, on whether gains on disposal of investments have been made by the VCT and the return achieved on the realisations. Accordingly the level of dividends will fluctuate and in some periods it is possible that no dividend will be paid.

The Board periodically reviews the need for share buy-backs. The purpose of share buy-backs is to satisfy demand from those shareholders who seek to sell their shares, given that there is a very limited secondary market for shares in Venture Capital Trusts generally. The Company may be able to buy back limited volumes of its shares from time to time. However its ability to do so may be constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA. The Company's current policy in this respect is unchanged from the previous accounting period.

The Company has no borrowings and there are no externally imposed capital requirements other than the minimum statutory share capital requirements for public limited companies.

20 Related party disclosures

SPARK Investors Limited (a fellow subsidiary of the Manager), of which JR Patel is a director, may from time to time be eligible to receive transaction fees and/or directors' fees from investee companies. During the year ended 31 December 2008, fees of £26,000 attributable to the investments of the Company were received pursuant to these arrangements (fourteen months ended 31 December 2007: £43,000).

During the year there were no transactions by Directors or in which the Company has invested (2007: one director made market purchases of shares: Medigene AG (£10,000), Oxford BioMedica plc (£5,000) and Portrait Software plc (£8,000)).

21 Co-investment

The Company has made venture capital investments in companies in which other funds managed by SVML have also invested:

For the purposes of this note, the following abbreviations apply:
SPARK Ventures plc – SPK
SPARK VCT plc – SVCT
Quester Venture Partnership – QVP
Isis College Fund Limited Partnerships and Second ISIS College Fund Limited Partnership – ICF
Lachesis Seed Fund Limited Partnership – Lachesis

Company	Co-investors
Academia Networks Limited	SVCT and ICF
Allergy Therapeutics plc	SVCT
Antenova Limited	SVCT and QVP
Arithmatica Limited	SVCT and QVP
Celldex Therapeutics, Inc.	SVCT and QVP
Celona Technologies Limited	QVP
Celoxica Holdings plc	QVP and ICF
Cluster Seven Limited	SVCT and QVP
Elateral Holdings Limited	SVCT
Gemini Holdings Limited	SVCT
Haemostatix Limited	SVCT, QVP and Lachesis
Imagesound plc	SVCT
Isango! Limited	SVCT and SPK
Level Four Software Limited	SVCT and QVP
MediGene AG	SVCT, QVP and ICF
Oxford Immunotec Limited	QVP and ICF
Oxonica plc	SVCT and ICF
Secerno Limited	SVCT and ICF
Sift Group Limited	SVCT
Skinkers Limited	SVCT and SPK
Symetrica Limited	SVCT
Perpetuum Limited	SVCT and QVP
Teraview Limited	SVCT
Uniservity Limited	SVCT
Vivacta Limited	SVCT and QVP
Workshare Limited	SVCT and QVP
Xention Limited	QVP
Xtera Communications, Inc.	QVP

22 Post balance sheet events

Subsequent to the year end the Company has not made any new investments in excess of 20% of the equity capital of an investee company or any follow-on investments that would raise the Company's existing stake above 20% of the equity capital of an investee company.

Report of the independent auditor to the members of SPARK VCT 2 plc

We have audited the financial statements (the "financial statements") of SPARK VCT 2 plc for the year ended 31 December 2008 which comprise the profit and loss account, balance sheet, cash flow statement, reconciliation of movements in shareholders' funds, and notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Statement of corporate governance reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the financial highlights, Chairman's statement, fund summary, Business review, principal venture capital investments, investment policy, Directors' report and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended;

- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
London
9 April 2009

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of SPARK VCT 2 plc (the "Company") will be held at Central Court, 25 Southampton Buildings, London, WC2A 1AL at 11:00 a.m. on 7 May 2009 for the following purposes:

As Ordinary Business

As ordinary business, to consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 7 will be proposed as ordinary resolutions and number 8 will be proposed as special resolution.

1 To receive, consider and adopt the annual report and accounts for the year ended 31 December 2008 and the auditor's report on those accounts and the auditable part of the Directors' remuneration report.

2 To approve the Directors' remuneration report for the year ended 31 December 2008.

3 To re-elect RA Wright as a Director.

4 To elect PM Seely as a Director.

5 To re-elect JR Patel as a Director.

6 To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to fix its remuneration.

7 Authority to allot shares

THAT the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80 of the Act) up to an aggregate nominal amount of £214,651.24 provided that:

(a) such authority shall expire on the day five years after the date of passing of this resolution;

(b) notwithstanding paragraph (a) above, this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offer or agreement; and

(c) all previous authorities under Section 80 of the Act be and they are hereby revoked.

8 Authority for the disapplication of pre-emption rights

THAT, in accordance with Section 95 of the Act, the Directors be and they are hereby empowered to allot equity securities (as defined in Sub-section (2) of section 94 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in Section 80 of the Act) contained in resolution 6 above as if Sub-section (1) of Section 89 of the Act did not apply to the allotment, provided that the power hereby conferred shall be limited to:

(a) the allotment of equity securities in connection with an issue or offering in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory; and

(b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal value not exceeding £78,534.88;

and this power, unless renewed, shall expire at the conclusion of the Annual General Meeting of the Company in 2010 or the date which is fifteen months from the date of this resolution, whichever is the earlier, but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

As Special Business

To consider and, if thought fit, to pass the following resolution which shall be proposed as a special resolution.

9 Authority for the company to purchase its own shares

THAT the Company be and it is hereby generally and unconditionally authorised for the purposes of Section 166 of the Act to make one or more market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") provided that:

(a) the maximum number of Ordinary Shares authorised to be purchased is 7,853,488;

(b) the minimum price which may be paid for an Ordinary Share is 1p;

(c) the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market prices shown in the quotations for an Ordinary Share in the Daily Official List of the UK Listing Authority for the five dealing days immediately preceding the day on which the Ordinary Share is purchased;

(d) the authority hereby conferred shall expire on the earlier date which is fifteen months from the date of this resolution and the date of the Annual General Meeting of the Company in 2010; and

(e) the Company may enter into a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which would or might be executed and completed wholly or partly after the expiry of such authority and may make purchases of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board
NT Tran
Secretary

33 Glasshouse Street
London, WB 5DG
9 April 2009

Note:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (who need not be shareholders of the Company) to exercise all or any of the rights of the shareholders to attend and speak and vote in his/her place.

2. To be valid, a form of proxy (as enclosed), duly signed, together with the power of attorney or other authority (if any) under which it is signed (or an office or notarially certified copy of such power or authority) must be lodged at Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 11:00 a.m. on 5 May 2009. Completion of a form of proxy will not affect the right of a shareholder to attend and vote at the meeting.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the register of members of the Company at 11:00 a.m. on 5 May 2009 will be entitled to attend and vote at the aforesaid meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned, the time by which a person must be entered in the register of members in order to have the right to attend or vote at the adjourned meeting is 11:00 a.m. on the day preceding the date fixed for the adjourned meeting. Changes to entries in the register after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of Directors' service contracts are available for inspection at the Company's registered office, 33 Glasshouse Street, London, W1B 5DG, during normal business hours (public holidays excluded) and will be made available for inspection at the place of the Annual General Meeting for 15 minutes prior to and during the meeting.

5. In the case of joint holders, the vote of the senior holder who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant holding.

Contacts

Directors
RA Wright (Chairman)
P Seely
APM Lamb
JR Patel

Secretary
Nghi Tran

Registered office
33 Glasshouse Street
London W1B 5DG
(Registered in England, No 4063505)

Manager
SPARK Venture Management Limited
33 Glasshouse Street
London W1B 5DG

Stockbroker
Noble & Company Limited
120 Broad Street
London EC2N 1AR

Solicitors
Travers Smith
10 Snow Hill
London EC1A 2AL

Auditor and VCT tax adviser
Grant Thornton UK LLP
Chartered Accountants and Registered Auditor
30 Finsbury Square
London EC2P 2YU

Quoted and fixed interest investment adviser
Newton Investment Management Limited
Mellon Financial Centre
160 Queen Victoria Street
London EC4V 4LA

Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA
Tel: 0871 664 0300
(Calls to Capita Registrars cost 10p
per minute plus network extras)

Bankers
The Royal Bank of Scotland
280 Bishopsgate
London EC2M 4RB

Shareholder information

Annual General Meeting **11:00 a.m. on 7 May 2009**

The notice of Annual General Meeting is contained in this report. A proxy form is enclosed with this circular. To be valid, completed proxy forms should be returned to Capita Registrars, Proxy Department, PO Box 25, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 11:00 a.m. on 5 May 2009.

Share price and net asset value announcements

The Company's ordinary shares are listed on the London Stock Exchange. The mid-market price of shares in SPARK VCT 2 plc is reported daily in the Financial Times in the Investment Companies section of the London Share Service. Share price information can also be obtained from many financial websites. Estimates of the Company's current net asset value are reported on certain days in the Financial Times. These estimates are not provided by the Manager.

The Company generally announces changes in its net asset value on a quarterly basis. However, no announcements will be made in respect of year end net asset values until the audited results are available. Half year and quarterly net asset value announcements will generally not be made until the internal valuation process for the unquoted investments has been completed. No other announcements regarding changes in the net asset value will be made unless material and/or required under UKLA rules.

Share buy-backs

There is a very limited secondary market for shares in Venture Capital Trusts generally. The Company may be able to buy-back limited volumes of its shares from time to time. However, its ability to do so is, or may be, constrained by the level of its own liquid resources, VCT specific legislation and the regulations of the UKLA. Shareholders seeking to sell their shares should contact the Company's stockbroker, Noble & Company Limited (see page 46 for details).

Eligible shareholders are reminded that a sale of their shareholding in SPARK VCT 2 plc may give rise to the loss of any capital gains tax deferral granted at the time of their original subscription.

Notification of change of shareholder details

Communications with shareholders are mailed to the registered address held by Capita Registrars, the Company's registrar. In the event of a change of address or other amendment, this should be notified to Capita Registrars under the signature of the registered holder.

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.

Investor relations

Shareholders may view details of their shareholdings online. The service may be accessed from the Investor Relations section of the SPARK website, www.sparkvct.com

If shareholders have any questions or comments about their investment, please contact SPARK: Tel: 0207 851 7777 Email: contact@sparkvtc.com

In addition, the Board is always pleased to respond to any written shareholder queries, which should be sent to the Company's registered office.

Notes

SPARK
VCT 2 PLC

33 Glasshouse Street
London W1B 5DG

Tel: +44 (0)20 7851 7777
Fax: +44 (0)20 7851 7770

contact@sparkvct.com
www.sparkvct.com