

VCT 2

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Annual Report

Financial highlights as at 31 December 2009

Per ordinary share (pence)	31.12.09	31.12.08	31.12.07
Net asset value	31.0	36.4	46.5
Dividends			
Dividend paid ⁽¹⁾	–	1.0	1.0
Cumulative dividend ⁽²⁾	6.9	6.9	5.9
Total return per share ⁽³⁾			
SPARK VCT 2 plc	37.9	43.3	52.4
Return including tax benefits ⁽⁵⁾	57.9	63.3	72.4
Total return per 100p invested ⁽⁴⁾			
SPARK VCT 3 plc	48.8	56.7	70.9
Return including tax benefits ⁽⁵⁾	68.8	76.7	90.9

(1) Dividend paid in the financial year ended on the date stated

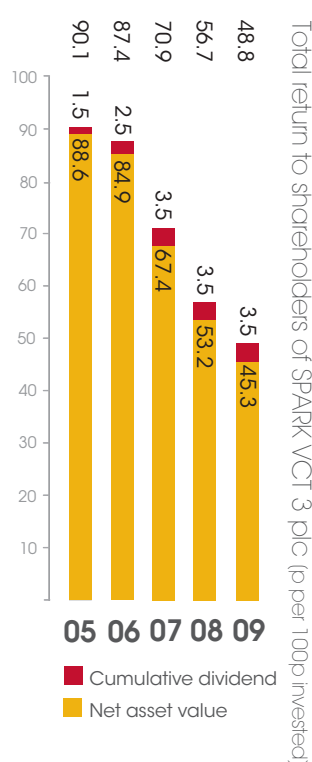
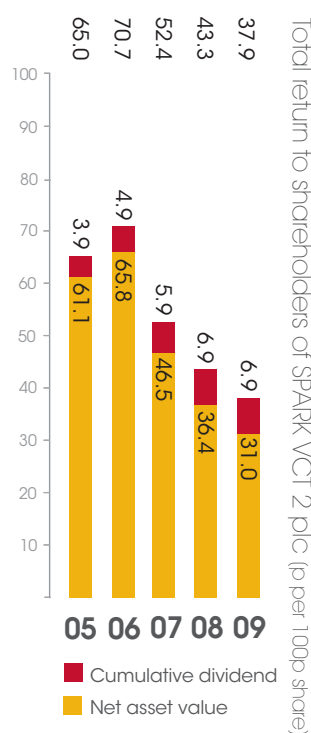
(2) Cumulative dividends paid by SPARK VCT 2 plc

(3) Net asset value plus cumulative dividend per share to ordinary 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 2009.



Composition of the fund by value

Unquoted venture capital investments	65.9%
Quoted venture capital investments	7.9%
Cash and other net current assets	26.2%
	100.0%

Chairman's statement

Overview

It will come as no surprise if I start this statement by saying that 2009 was a very difficult year for business in general. The economy was in recession and credit was very tight. Even the more mature companies in the portfolio of SPARK VCT 2 plc have been facing conditions in which growth has been difficult to achieve and levels of sales and profitability have come under pressure. Companies that are at a somewhat earlier stage of development have been vulnerable to delays and reluctance to place orders on the part of major corporate customers. The very early stage companies, trying to establish new products or to develop new markets, have found the conditions particularly difficult.

While the companies in which SPARK VCT 2 plc invests are in general financed by equity rather than debt, the credit crunch has had the effect, in a number of cases, of reducing the availability of trade credit and thereby increasing working capital requirements.

Against this economic background, the funding environment for all early stage companies has continued to be very uncertain. Companies that have needed to raise new capital during the year have been obliged to accept significantly lower pre-money valuations.

The environment for the achievement of exits from venture capital investments has also been unfavourable, with the major corporates on which reliance is normally placed for M&A activity having been reluctant to make acquisitions during 2009, although as this report is written there are signs of this situation beginning to improve.

As we have said before in these reports, investment in early stage technology companies has always required a good deal of patience. We are conscious that shareholders in SPARK VCT 2 plc have suffered a heavy decline in net asset value per share over the period of their investment. However, the Board believes that the present more concentrated portfolio of venture capital investments does offer the prospect of significant capital growth from present levels, provided that the investee companies can maintain stability and see their way through the present difficult times.

Against this background, the operational progress shown by a number of the key portfolio companies in 2009 is reasonably encouraging, and represents a major step forward for a portfolio originally built around investment in companies at very early stage. A much greater proportion of the overall portfolio by valuation is now represented by companies with a significant level of revenue generation (over £2m per annum) and trading profitably (at the EBITDA level).

It will be the Company's policy to continue to support those of the existing investee companies that are considered to have strong growth prospects, to enable them to develop long enough to allow an optimal realisation. At the time of writing, it is too soon to predict the timing of any exits, but the shape of possible exits from a number of the companies is now starting to become clearer. Continued patience, modest amounts of additional investment where necessary, and strategic input from members of the management team in working with the portfolio companies will be the key to making the best of these opportunities.

For 2010, the Company's primary objective will be the same as for 2009, namely to ensure that the portfolio remains stable, but there will now be a greater emphasis on positioning some of the more developed companies for an exit and, provided conditions develop favourably, making a start on turning some of the more significant assets into cash.

Results of strategy review

An announcement was released at the end of January setting out the results of the Board's review of the future direction of the Company: this had the aim of determining a strategy that will ensure that investment returns generated from the venture capital portfolio are delivered to shareholders in the most appropriate way, as and when they arise.

In conducting the Review, the Board was mindful of the tax benefits that shareholders have already received in respect of their original investment in the Company or in SPARK VCT 3 plc, which merged with the Company in November 2008. The tax benefits will have included income tax relief on their original investment and, in many cases, capital gains deferral ("CGT deferral"). Shareholders can also benefit from the ability of the Company to pay tax-free dividends under the VCT provisions.

The Board took into account that most of the Company's existing investments have been held in the portfolio for a long time, with successful realisations of investments having been few in number and dividend payments to shareholders having been very limited. This has been a consequence partly of the initial focus of the investment policy on early-stage technology investments and partly of the difficult economic and financial conditions in recent years which have slowed the rate of development of investee companies and made exits more difficult to achieve.

The key conclusions of the Review are as follows:

Dividend policy:

In future, priority will be given to the payment of dividends as and when realisations are achieved. In particular, subject to any tax or regulatory constraints, 50% of the proceeds from any realisations from within the existing venture capital portfolio will be regarded as being available for distribution.

Longer-term future of the Company:

The Board considers that the Company should continue as a Venture Capital Trust and that, within the parameters of its existing investment policy, there should in future be a focus on investments selected with a view to yield as well as capital stability.

Investment policy:

The Company intends to maintain the existing sector focus, capitalising on the SPARK management team's range of contacts and its expertise in investment in these sectors. As and when funds are available for new investment, the SPARK management team will seek to take advantage of opportunities available at this current stage in the investment cycle, particularly opportunities to participate in later-stage financing rounds of venture-backed companies within the existing sector focus. The aim will be to seek investments in companies which are already revenue generating with a stable business base, and are able to deliver a flow of dividends or be capable of exit within a 3-year period.

Share buyback policy:

The Company will continue to be willing to make buybacks of limited volumes of its shares but expects that, going forward, the budget made available to fund buybacks will be more tightly restricted than in previous years.

Results for the year ended 31 December 2009

The movement in net assets and net assets per share in the year ended 31 December 2009 is summarised in the table below.

	Venture capital investments £'000	Net current assets £'000	Total £'000	Pence per Share
Net asset value at 31 December 2008	20,489	8,106	28,595	36.4
Income	-	114	114	0.1
Operating expenses	-	(772)	(772)	(1.0)
Net gain on disposal	188	-	188	0.2
Net loss on valuation of investments	(3,950)	-	(3,950)	(5.0)
Net investment by the Company	1,016	(1,016)	-	-
Net assets before dividends and share buybacks	17,743	6,432	24,175	30.7
Dividend paid	-	-	-	-
Share buybacks	-	(146)	(146)	0.3
Net asset value at 31 December 2009	17,743	6,286	24,029	31.0

Net assets per share, before the payment of dividends and share buy-backs, fell by 5.7p in the year (15.7%).

The effect of the business and financial environment during 2009 has been a decline in valuation of the portfolio of £3,950,000 overall, including a decline in valuation of the unquoted investments of £4,195,000 (-21.1%). Within the overall figures, the valuations of the "maturing" venture capital investments have remained broadly stable overall, but the valuations of the "developing" venture capital investments have seen a significant decline (-14.1%), mainly reflecting the lower pre-money valuations applicable where the companies have needed to raise additional venture capital funding in the current market environment.

For the "early stage" venture capital investments, the trading conditions, the stringent approach to the provision of further funding and the lower pre-money valuations that have applied, and in the case of the life sciences investments a cautious approach to valuation where developmental delays have been encountered, have led to substantial write-downs in valuation (-49.4% for this category overall). In all cases, the valuations have been determined under the application of the International Private Equity and Venture Capital Valuation Guidelines. Details are given in the Business Review on page 6.

Chairman's statement (cont.)

Operating expenses for 2009 at £772,000 overall (3.2% of year-end net assets) have benefited from the application of the 'cap' on 'annual running costs' (as defined in the Investment Management Agreement) that has applied since the date of the merger with SPARK VCT 3 plc in November 2008, as well as from the exemption of the management fee from VAT. Some £50,000 of expenses, mainly relating to professional advisory fees, were incurred that fell outside the definition of 'annual running costs'. In 2008 the total of operating expenses was considerably higher at £1,253,000 but this included the bulk of the costs of the merger.

The total return to shareholders from the launch of the Company in November 2000 to 31 December 2009, inclusive of all dividends paid, now amounts to 37.9p 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 2009, inclusive of all dividends paid, amounts to 48.8p 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.

Dividend

In the absence of any realisations during the year, the Board does not recommend a dividend in respect of the year ended 31 December 2009.

In line with the strategy described above, should realisations be achieved during the current year, and subject to any tax or regulatory constraints, it will be the Board's intention to declare a dividend of 50% of the proceeds.

Board

Thomas Chambers was appointed as a Director of the Company on 13 January 2010. It gives me much pleasure to welcome him to the Board. Thomas brings many years of both operational experience and advisory roles in the technology and communications sectors, giving him a deep insight into these industries, and a wealth of experience in M&A and company flotations. In accordance with the Articles of Association, he will stand for election at the AGM.

Developments concerning the Manager

The management buyout from SPARK Ventures plc of its investment fund management business, including the contract for the provision of investment management services to the Company, was completed on 9 October 2009.

Accordingly SPARK Venture Management Limited, the Manager of the Company, has become a subsidiary of SPARK Venture Management Holdings Limited, a company owned and run by Andrew Carruthers, Jay Patel, Tom Teichman (Executive Chairman) and Andy Betton (Finance Director), previously the executive directors of SPARK Ventures plc.

There is no change in the team within SPARK Venture Management Limited responsible for the management of the Company.

Intended purchases of shares in the Company by members of the SPARK management team and members of the Board

The Board is pleased to announce that key members of the SPARK management team, including SPARK VCT 2 plc Director Jay Patel, who do not currently hold shares in the Company, have indicated that they wish individually to acquire shareholdings by purchases of the Company's shares in the open market. The independent directors similarly intend to acquire a shareholding (in the case of newly-appointed director Thomas Chambers) or to add to their existing shareholdings by purchases of the Company's shares in the open market.

They intend to commence these purchases when the Company exits its close period following publication of this Annual Report and following completion of any share buyback transactions which the Company may choose to undertake at that time.

Outlook

Current activity on the part of major corporates in considering strategic acquisition opportunities among venture-backed companies suggests evidence of an improving M&A market. Opportunities to capture strategic value in individual cases within the portfolio will therefore be kept under close review.

The stage of development and current business prospects of the majority of the investee companies suggest, however, that the main flow of realisation proceeds should be expected only in 2011 and 2012.

Robert Wright
Chairman
31 March 2010

Fund summary as at 31 December 2009

	Industry sector	Accounting cost ⁽¹⁾ £'000	Valuation £'000	Equity % held	% of fund by value
Fifteen largest venture capital investments					
Workshare Limited	TMT	2,947	3,076	10.2%	12.8%
Xtera Communications, Inc.	TMT	3,191	1,779	1.3%	7.4%
UniServity Limited	TMT	1,692	1,692	28.7%	7.0%
Oxford Immunotec Limited	Healthcare	2,530	1,346	6.2%	5.6%
Elateral Holdings Limited ⁽²⁾	TMT	479	1,161	13.3%	4.8%
Xention Limited	Healthcare	2,438	963	6.9%	4.0%
Level Four Software Limited	TMT	795	795	7.3%	3.3%
Cluster Seven Limited	TMT	845	765	5.8%	3.2%
Portrait Software plc <i>AIM</i>	TMT	1,186	736	3.3%	3.1%
Vivacta Limited	Healthcare	889	732	4.7%	3.0%
Siff Group Limited	TMT	964	647	8.9%	2.7%
Celona Technologies Limited	TMT	2,859	516	10.3%	2.1%
Imagesound plc	TMT	489	489	0.5%	2.1%
MediGene AG <i>FRANKFURT</i>	Healthcare	797	487	0.4%	2.0%
Antenova Limited	TMT	1,718	448	6.2%	1.9%
		23,819	15,632		65.0%
Other venture capital investments					
Celldex Therapeutics, Inc. <i>NASDAQ</i>	Healthcare	1,542	314	0.3%	1.3%
Haemostatix Limited	Healthcare	312	312	7.7%	1.3%
Allergy Therapeutics plc <i>AIM</i>	Healthcare	795	252	0.6%	1.0%
Secerno Limited	TMT	476	229	3.4%	1.0%
Isango! Limited	TMT	750	188	11.5%	0.8%
Perpetuum Limited	TMT	479	146	4.4%	0.6%
We7 Limited	TMT	334	137	3.8%	0.6%
Celoxica Holdings plc ⁽²⁾	TMT	208	121	3.7%	0.5%
Academia Networks Limited	TMT	44	120	1.7%	0.5%
Quadnetics Group plc <i>AIM</i>	TMT	166	106	0.5%	0.4%
TeraView Limited	Healthcare	1,064	100	4.8%	0.4%
Other investments: valuations less than £100,000 ⁽⁴⁾		716	86		0.4%
		6,886	2,111		8.8%
Total venture capital investments		30,705	17,743		73.8%
Total unquoted venture capital investments		26,219	15,848		65.9%
Total quoted venture capital investments		4,486	1,895		7.9%
Total investments		30,705	17,743		73.8%
Cash and other net assets		6,286	6,286		26.2%
Net assets		36,991	24,029		100.0%

(1) Amounts shown as accounting cost represent acquisition cost in the case of investments originally made by the Company and/or the valuation attributed to investments acquired from SPARK VCT 3 plc at the date of the merger in 2008, 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 £1,250,000 in the case of Celoxica Holdings plc and £676,000 for Elateral Holdings Limited representing an impairment in value.

Details of movements in valuation of the venture capital investments over the year to 31 December 2009 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 417 of the Companies Act 2006 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 15.

Fund summary

The Fund summary on page 5 lists the venture capital investments held by the Company at 31 December 2009 with their accounting cost and valuation at that date. The 15 largest venture capital investments held at 31 December 2009 collectively account for 65.0% of the net assets at the balance sheet date; further details of these investments are given on pages 11 to 14.

The venture capital investments of SPARK VCT 2 plc currently fall into four categories:

- **Quoted venture capital investments** (11% of the venture capital portfolio by valuation)

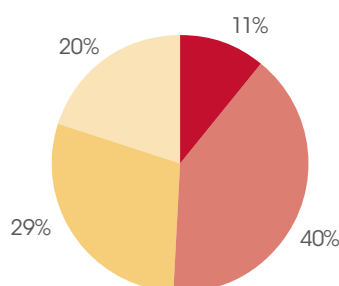
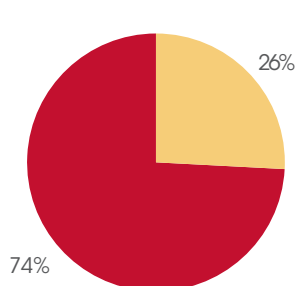
These are companies whose shares are quoted on a recognised market such as AIM, the London Stock Exchange's market for smaller growing companies, NASDAQ in the United States and the Frankfurt Stock Exchange
- **"Maturing" venture capital investments** (40% of the venture capital portfolio by valuation)

These are unquoted companies with stable and growing revenue streams, achieving profitable trading or very close to it, and with stable cash positions
- **"Developing" venture capital investments** (29% of the venture capital portfolio by valuation)

These are unquoted companies with developed business models and growing revenue streams, though still facing uncertainties, and breaking through into cash-flow positive trading
- **"Early stage" venture capital investments** (20% of the venture capital portfolio by valuation)

These are companies still establishing their business model or, in the case of businesses in the life sciences sector, still at the product development stage.

The charts below show the composition of the venture capital investment portfolio at 31 December 2009 according to industry sector and by investment stage as detailed above.



Sector analysis (value)

- TMT
- Healthcare

Quoted / "Maturing" / "Developing" / "Early stage"

- Quoted
- "Maturing" venture capital
- "Developing" venture capital
- "Early stage" venture capital

Portfolio update/trends during 2009

Overall, the quoted venture capital investments recorded a modest increase in valuation, with **Portrait Software plc** showing a good share price performance over 2009 and subsequently (since 31 December 2009, part of the holding has been sold at a higher level). The share prices of the life sciences companies **MediGene AG** and **Celldex Therapeutics, Inc.** declined over the year but in both cases the drug development pipelines are considered to offer significant scope for capital growth over the longer term.

In respect of the unquoted companies in the categories of "maturing" and "developing" venture capital investments, looking back on 2009 as a whole, the SPARK management team can report generally satisfactory operational progress despite the difficult trading conditions. In a number of cases good growth has been achieved in spite of the trading environment (**Elatel Holdings Limited** and **Workshare Limited** have produced encouraging performances). Other companies have experienced some reduction in the levels of revenue and profitability (**Siff Group Limited** being an example). The "developing" companies, including in the TMT sector **Antenova Limited**, **Cluster Seven Limited**, **Level Four Software Limited** and **UniServity Limited**, have generally made satisfactory operational progress, growing their revenue streams and making progress towards cash-positive trading. In the life sciences sector **Oxford Immunotec Limited** has made significant progress in the development of the United States market with encouraging sales growth, albeit from a low base.

In all cases individual members of the team have worked closely with managements of investee companies to ensure appropriate cost control and management of cash resources while at the same time focusing strategy and identifying opportunities for future growth. This approach appears to have been successful so far in enabling companies to survive the recession.

The "early stage" companies which are still establishing their business models have suffered far more in the difficult trading environment of the last couple of years. Offering new products and services without an established customer base, these companies have been much more vulnerable to cancellations of contracts and extended sales cycles in this period of economic uncertainty. Particular cases in point, in the TMT sector, are **Isango! Limited**, **Perpetuum Limited**, **Skinkers Limited** and **We7 Limited**. The SPARK management team has worked with the company managements on the difficult decisions that have been necessary to secure survival. The provision of additional funding from SPARK VCT 2 plc has been kept to the minimum consistent with the continuation of the business. In the life sciences sector **Haemostatix Limited** has made good progress towards early commercialisation, while in the cases of **Xention Limited** and **Vivacta Limited** the timescales involved in clinical trials and/or manufacturing development and regulatory approval are now expected to be longer than previously anticipated and are likely somewhat to delay the timescale to commercialisation.

During 2009 only a limited amount of additional investment has been committed to the portfolio: this has been focused on follow-on investment where the SPARK management team's conditions regarding the trading position of the company have been met. No new investments were made during the year.

The effect of these trends in 2009, and the limited further investment, has been a substantial downward movement in the reported valuations of unquoted investments (-21.1% overall). The valuations of the "maturing" venture capital investments have remained stable overall. However the valuations of the "developing" venture capital investments have seen a significant decline (-14.1%), mainly reflecting the lower pre-money valuations applicable where the companies have needed to raise additional venture capital funding in the current market environment. For the "early stage" venture capital investments, the trading conditions, the stringent approach to the provision of further funding and the lower pre-money valuations that have applied, and in the case of the life sciences investments a cautious approach to valuation where developmental delays have been encountered, have led to substantial write-downs in valuation (-49.4% for this category overall).

Prospects for the current portfolio

SPARK Venture Management Limited took over the management of the Company (then called Quester VCT 4 plc) and SPARK VCT 3 plc (then called Quester VCT 5 plc) in May 2007. At that date the combined venture capital portfolio of the two VCTs was composed of 45 investee companies, of which 12 were quoted and 33 unquoted. Given the limited size of the two VCTs and the capital requirements of such a large number of early stage companies, the SPARK management team resolved to reduce the financing risk and concentrate on a smaller number of the more promising candidates.

The number of unquoted companies in the portfolio has now been reduced from a combined total of 33 in May 2007 to 21 at the present date (excluding subsequent new investments). A successful trade sale was achieved in the case of Nomad Payments Limited, returning proceeds of £3,020,000 for a 1.9x multiple of cost; two other companies were sold by way of trade sale returning proceeds of a further £1,078,000 and 11 companies were closed and/or the investments written off.

In the process, the funding requirement for the portfolio was reduced from £18.2m in the two years leading up to 2007 to £4.1m in the two years subsequent. However, this restructuring exercise and cost control has inevitably led to a reduction in the value of the Company's unquoted portfolio, partly as a result of the withholding of funding from weaker investments.

Business review (cont.)

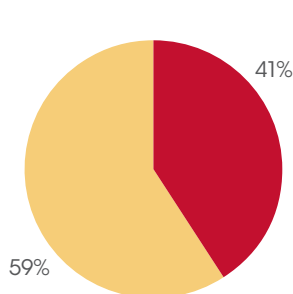
Nevertheless, the SPARK management team believe that the portfolio is now substantially more robust, in spite of the recent market downturn, than would otherwise be the case. In 2007, 80% of the value in the 33 unquoted investments was represented by 14 investments, which had the characteristics, in many cases, of very small sales revenues and negative profitability in terms of EBITDA (earnings before interest, tax, depreciation and amortisation):

- Companies with annual revenues of less than £2.0m: 8 of the top 14 investments (representing 59% of the valuation)
- Companies with negative EBITDA: 13 of the top 14 investments (representing 97% of the valuation).

By the end of 2009, 80% of the value in the remaining 21 unquoted investments was represented by 10 investments, which had developed the following much healthier profile (figures of annual revenues and EBITDA relate to annual run-rates at December 2009):

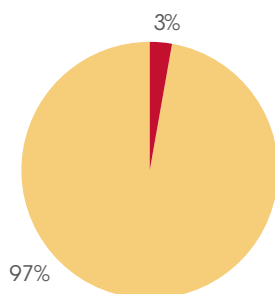
- Companies with annual revenues of less than £2.0m: only 1 of the top 10 investments (6% of the valuation)
- Companies with negative EBITDA: 5 of the top 10 investments (50% of the valuation).

We believe that this puts SPARK VCT 2 plc in a much better position to cope with the current shortage of investment capital and to support more satisfactory returns to shareholders.



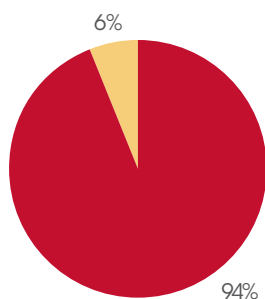
Revenues of top 80% May 2007

- Annual revenues more than £2m
- Annual revenues less than £2m



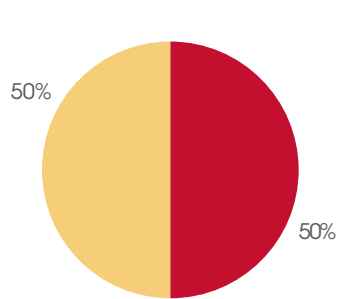
Profitability of top 80% May 2007

- EBITDA positive
- EBITDA negative



Revenues of top 80% Dec 2009

- Annual revenues more than £2m
- Annual revenues less than £2m



Profitability of top 80% Dec 2009

- EBITDA positive
- EBITDA negative

A summary of the movement in the number of companies in the portfolio is set out below:

	Quoted	Unquoted	Total
Number of portfolio companies of SPARK VCT 2 plc at May 2007	8	27	35
Companies added as a result of the merger with SPARK VCT 3 plc	4	6	10
	12	33	45
Successful realisation: Nomad Payments Limited		(1)	(1)
Other realisations	(2)	(2)	(4)
Companies closed and/or investments written off	(3)	(11)	(14)
Public quotation: Celldex Therapeutics, Inc.	1	(1)	-
Reversion to unquoted status: Celoxica Holdings plc, Imagesound plc, Synarbor plc	(3)	3	-
Number of portfolio companies 31 December 2009	5	21	26

Follow-on investments

It has been an objective of the SPARK management team to reduce the portfolio's dependency on outside capital and to ensure prudent management of liquidity within the fund. Accordingly, the year to 31 December 2009 saw only a limited amount of additional investment being committed to the portfolio:

Company	Sector	£'000
Celona Technologies Limited	TMT	232
Oxford Immunotec Limited	Healthcare	142
UniServity Limited	TMT	292
Vivacta Limited	Healthcare	91
Xention Limited	Healthcare	244
Xtera Communications, Inc.	TMT	123
Other companies (6)		211
		1,335

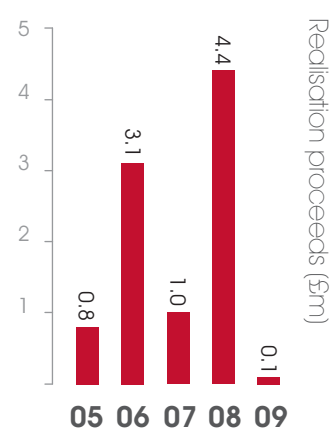
Realisations

With the M&A market effectively having been closed during much of the year, it has not been possible to achieve any significant exits.

As noted in the Chairman's statement, the recent strategy review took into account that most of the Company's existing investments have been held in the portfolio for a long time, with successful realisations of investments being few in number and dividend payments to shareholders having been very limited. This has been a consequence partly of the initial focus of the investment policy on early-stage technology investments and partly of the difficult economic and financial conditions in recent years which have slowed the rate of development of investee companies and made exits more difficult to achieve.

Looking ahead, while it is too soon to predict the timing of any exits, the shape of possible exits from a number of the companies is starting to become clearer.

In line with the new strategy described in the Chairman's statement, priority will be given to the payment of dividends as and when realisations are achieved.



Future investment strategy

As noted in the Chairman's statement, it will be the Company's policy to continue to support those of the existing investee companies that are considered to have strong growth prospects, to enable them to develop long enough to allow an optimal realisation.

As and when funds are available for new investment, the SPARK management team will seek to take advantage of opportunities available at this current stage in the investment cycle, particularly opportunities to participate in later-stage financing rounds of venture-backed companies within the existing sector focus. The aim will be to seek investments in companies which are already revenue generating with a stable business base, and are able to deliver a flow of dividends or be capable of exit within a 3-year period.

Business review (cont.)

Against this background, and having regard to the revised dividend policy described in the Chairman's statement, it will be the Manager's intention to continue to target the 85% level as the asset allocation to the venture capital portfolio but that the balance of the net assets from time to time should be held in liquid form (cash or holdings in global treasury funds which count as "securities" for the purposes of the Company's VCT qualifying status), rather than in listed equities or fixed-interest securities.

Valuation changes

Valuations of the unquoted investments have been determined under the application of the International Private Equity and Venture Capital Valuation Guidelines, having regard mainly to (i) prices of recent financing rounds (referred to on pages 11 to 14 as "price of investment round"), (ii) earnings multiples and (iii) industry valuation benchmarks and/or M&A valuation criteria (referred to on pages 11 to 14 as "industry valuation benchmarks"). In a number of instances, particularly among the "early stage" venture capital investments, the previous valuations have been written down, where progress in product development or early commercialisation has been slower than anticipated. The quoted venture capital investments (shares traded on AIM, NASDAQ and the Frankfurt Stock Exchange) have been valued at their bid prices at 31 December 2009.

Overall, a reduction in valuation of venture capital investments of £3,950,000 has been recorded for the year, comprising a reduction in valuation of £4,195,000 in respect of unquoted investments and an unrealised gain of £245,000 in respect of quoted venture capital Investments.

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

Company	£'000
"Maturing" venture capital investments	24
"Developing" venture capital investments	(852)
"Early stage" venture capital investments	(3,367)
	<u>(4,195)</u>

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

Company	£'000
Portrait Software plc <small>AIM</small>	520
MediGene AG <small>FRANKFURT</small>	(129)
Celldex Therapeutics, Inc. <small>NASDAQ</small>	(259)
Others (2)	113
	<u>245</u>

Outlook

Current activity on the part of major corporates in considering strategic acquisition opportunities among venture-backed companies suggests evidence of an improving M&A market. We are conscious of the importance of judging the optimal timing of M&A activity in relation to small companies in specialist areas where the number of potential buyers may be limited. Opportunities to capture strategic value in individual cases within the portfolio will therefore be kept under close review. Nevertheless, for the purposes of overall fund planning, we target the flow of realisation proceeds from certain key investments in 2011 and 2012.

SPARK Venture Management Limited

Manager

31 March 2010

Fifteen largest venture capital investments

Workshare Limited



Accounting cost ⁽¹⁾	£2,947,000
Valuation	£3,076,000
Basis of valuation	Industry valuation benchmark
Equity held	10.2%
Location	London, UK
Business	Document comparison and collaboration software, providing risk management and security
History	Expansion finance in 2006, Quester sole institutional investor in 2002
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information	2009	2008
Year ended 31/3 ⁽²⁾	\$'m	\$'m
Sales	26.0	23.8
Loss before tax	(2.6)	(8.4)
Loss after tax	(2.3)	(8.4)
Net liabilities	(4.3)	(0.3)

Xtera Communications, Inc.



Accounting cost ⁽¹⁾	£3,191,000
Valuation	£1,779,000
Basis of valuation	Price of investment round
Equity held	1.3%
Location	Allen, Texas, USA
Business	Telecommunications network infrastructure products, including optical transport solutions for long-haul, regional, metropolitan and sub-sea networks
History	Start-up investment by Quester funds in Azea Networks in 2002, company merged with Xtera in 2007
Co-investment	Quester Venture Partnership

Audited financial information	2008	2007
Year ended 30/09	\$'m	\$'m

Financial information not publicly available (private US company)

(1) Amounts shown as accounting cost represent acquisition cost in the case of investments originally made by the Company and/or the valuation attributed to investments acquired from SPARK VCT 3 plc at the date of the merger in 2008, plus any subsequent acquisition cost, as reduced in certain cases by amounts written off as representing an impairment in value.

UniServity Limited



Accounting cost ⁽¹⁾	£1,692,000
Valuation	£1,692,000
Basis of valuation	Price of investment round
Equity held	28.7%
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	2008	2007
Year ended 31/7 ⁽²⁾	£'m	£'m
Net (liabilities)/assets	(0.3)	0.9

Oxford Immunotec Limited



Accounting cost ⁽¹⁾	£2,530,000
Valuation	£1,346,000
Basis of valuation	Price of investment round
Equity held	6.2%
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	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m

Sales	2.0	1.1
Loss before tax	(6.1)	(4.5)
Loss after tax	(5.9)	(4.4)
Net assets	11.3	5.0

(2) Audited financial information is from the most recent statutory accounts filed with Companies House.

Fifteen largest venture capital investments (cont.)

Elatel Holdings Limited

Accounting cost (as reduced by £676,000 being an impairment in value) ⁽¹⁾	£479,000
Valuation	£1,161,000
Basis of valuation	Adjusted earnings multiple
Equity held	13.3%
Location	Farnham, UK
Business	Web based marketing automation service developer
History	Quester expansion-stage investment in 2002, following earlier investment by other Quester funds
Co-investment	SPARK VCT plc

Audited financial information	2009	2008
Year ended 31/3 ⁽²⁾	£'m	£'m
Sales	5.1	3.6
Profit before tax	0.2	0.3
Profit after tax	0.2	0.3
Net liabilities	(0.4)	(0.7)
Net assets (excluding shareholder loans)	0.9	0.5

Xention Limited

Accounting cost ⁽¹⁾	£2,438,000
Valuation	£963,000
Basis of valuation	Industry valuation benchmark
Equity held	6.9%
Location	Cambridge, UK
Business	Ion channel drug discovery focused in specific areas in cardiology, urology and auto-immune disease
History	Quester early-stage investment in 2003 as part of larger syndicate
Co-investment	Quester Venture Partnership

Audited financial information	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m
Net assets	2.1	2.5

(1) Amounts shown as accounting cost represent acquisition cost in the case of investments originally made by the Company and/or the valuation attributed to investments acquired from SPARK VCT 3 plc at the date of the merger in 2008, plus any subsequent acquisition cost, as reduced in certain cases by amounts written off as representing an impairment in value.

(2) Audited financial information is from the most recent statutory accounts filed with Companies House.

Level Four Software Limited

Accounting cost ⁽¹⁾	£795,000
Valuation	£795,000
Basis of valuation	Price of investment round
Equity held	7.3%
Location	Dunfermline, 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	2008	2007
Year ended 30/6 ⁽²⁾	£'m	£'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)
Net assets (excluding shareholder loans)	0.3	0.1

Cluster Seven Limited

Accounting cost ⁽¹⁾	£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 funds investment in 2005 institutional round, early stage
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m
Sales	1.5	2.3
Loss before tax	(1.7)	(2.1)
Loss after tax	(1.5)	(2.1)
Net liabilities	(3.4)	(1.8)
Net liabilities (excluding shareholder loans)	(0.6)	(0.3)

Portrait Software plc



Accounting cost ⁽¹⁾	£1,186,000
Valuation	£736,000
Basis of valuation	Bid price on AIM
Equity held	3.3%
Location	Oxfordshire, UK
Business	Customer interaction optimisation software
History	Quester funds investment in AIM financing in 2002

Audited financial information	2009	2008
Year ended 31/3 ⁽²⁾	£'m	£'m
Sales	14.4	14.1
(Loss)/profit before tax	(3.1)	0.4
(Loss)/profit after tax	(3.2)	0.3
Net assets	3.5	6.3

Sift Group Limited



Accounting cost ⁽¹⁾	£964,000
Valuation	£647,000
Basis of valuation	Industry valuation benchmark
Equity held	8.9%
Location	Bristol, UK
Business	Web content management provider
History	Development capital, Quester co-led, 1999
Co-investment	SPARK VCT plc

Audited financial information	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m
Sales	7.1	5.9
Profit/(loss) before tax	0.5	(0.3)
Profit/(loss) after tax	0.6	(0.3)
Net assets	0.6	0.1

Vivacta Limited



Accounting cost ⁽¹⁾	£889,000
Valuation	£732,000
Basis of valuation	Industry valuation benchmark
Equity held	4.7%
Location	Sittingbourne, UK
Business	In vitro diagnostics technology delivered at point of care
History	Industrial spin-out, Quester sole institutional investor in 2006, subsequently joined by new third party investors
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information	2009	2008
Year ended 31/7 ⁽²⁾	£'m	£'m
Sales	-	-
Loss before tax	(4.2)	(3.2)
Loss after tax	(3.8)	(2.8)
Net assets	4.7	5.7

Celona Technologies Limited



Accounting cost ⁽¹⁾	£2,859,000
Valuation	£516,000
Basis of valuation	Price of investment round
Equity held	10.3%
Location	London
Business	Developer and provider of application data migration software
History	Quester early-stage investment in 2004, subsequently joined by new third-party investors
Co-investment	Quester Venture Partnership

Audited financial information	2009	2008
Year ended 31/3 ⁽²⁾	£'m	£'m
Sales	2.6	0.5
Loss before tax	(3.8)	(5.0)
Loss after tax	(3.5)	(4.2)
Net liabilities	(9.6)	(6.1)
Net assets (excluding shareholder loans)	0.3	1.5

Fifteen largest venture capital investments (cont.)

Imagesound plc



Accounting cost ⁽¹⁾	£489,000
Valuation	£489,000
Basis of valuation	Adjusted earnings multiple
Equity held	0.5%
Location	Chesterfield, UK
Business	Messaging and audio-visual content provider
History	Initial investment by Quester VCTs 2 & 3 in 2000, expansion finance
Co-investment	SPARK VCT plc

Audited financial information	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m
Sales	9.1	8.8
Loss before tax	(0.5)	(1.1)
Loss after tax	(0.3)	(0.8)
Net assets	7.9	8.0

MediGene AG



Accounting cost ⁽¹⁾	£797,000
Valuation	£487,000
Basis of valuation	Bid price on Frankfurt stock exchange
Equity held	0.4%
Location	Munich, Germany
Business	Research, development and commercialisation of novel therapeutics for 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	2008	2007
Year ended 31/12	€'m	€'m
Sales	39.6	23.9
Loss before tax	(33.1)	(31.3)
Loss after tax	(30.8)	(30.0)
Net assets	80.7	114.9

(1) Amounts shown as accounting cost represent acquisition cost in the case of investments originally made by the Company and /or the valuation attributed to investments acquired from SPARK VCT 3 plc at the date of the merger in 2008, plus any subsequent acquisition cost, as reduced in certain cases by amounts written off as representing an impairment in value.

Antenova Limited



Accounting cost ⁽¹⁾	£1,718,000
Valuation	£448,000
Basis of valuation	Industry valuation benchmark
Equity held	6.2%
Location	Cambridge, UK
Business	Developer and supplier of integrated antennas and RF solutions for mobile phones and other wireless devices
History	Quester co-lead of an early stage round in 2001 as part of a larger syndicate
Co-investment	SPARK VCT plc and Quester Venture Partnership

Audited financial information	2008	2007
Year ended 31/12 ⁽²⁾	£'m	£'m
Sales	4.1	2.5
Loss before tax	(2.2)	(4.0)
Loss after tax	(1.9)	(3.7)
Net assets	4.5	3.2

(2) Audited financial information is from the most recent statutory accounts filed with Companies House.

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 for 85% of net assets to be allocated to a venture capital portfolio designed to achieve capital growth, with the balance to be held in capital-secure liquid assets as a reserve for follow-on financing of companies in the existing venture capital portfolio or to meet the net operating expenses of the Company.

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 (mainly in the TMT and healthcare sectors) and investment stages.

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.

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.

Thomas Chambers, chairman of the audit committee, has ten years of operational experience at ADSL and fixed line phone provider First Telecom plc and the mobile operating systems provider Symbian Limited, and a broad range of industry related non-executive and advisory roles since 2002 which have given Thomas insight into the technology and communications sectors. As CFO of Symbian he played a significant leadership role in its growth and sale to Nokia. He was also CFO of Robert Walters plc which he took through its listing on the London Stock Exchange in 1996. He spent 6 years in corporate finance at Dresdner Kleinwort Benson Limited after a 5 year career with Price Waterhouse. He is also a non-executive director of AIM listed System C Healthcare plc.

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 is a Managing Director of SPARK Venture Management Limited and was part of the founding team of SPARK Ventures plc in 1999. His investment interests are in the internet, media, mobile and software sectors. He sits on a number of investee company Boards and has led several past exits of SPARK Ventures plc investments. Previously he was part of the European Media Investment Banking team at UBS Warburg and a finance executive at BSKyB. He qualified as a Chartered Accountant with KPMG and holds an MBA degree from INSEAD.

All the Directors are non-executive and Robert Wright, Thomas Chambers and Alan Lamb are independent of the Manager. At the forthcoming Annual General Meeting in accordance with the Company's Articles of Association, Thomas Chambers, having been appointed on 13 January 2010, offers himself for election and Alan Lamb 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 2009.

Activities and status

The principal activity of the Company during the year was the making of equity investments in unquoted companies. On 15 March 2010, the Company was granted annual approval by HM Revenue & Customs as a Venture Capital Trust for the year ended 31 December 2008 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 2009 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.

Business review

The Business review which is required by Section 417 of the Companies Act 2006 is set out on page 6 and is included in the Directors' report by reference.

Corporate governance statement

The corporate governance statement which is required by the Disclosure and Transparency Rules DTR 7.2 is set out on pages 20 to 21 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 2009 was £4,420,000 (31 December 2008: loss of £5,233,000).

As at 31 December 2009, the Company had accumulated investment holding losses (net of gains) of £12,962,000 (31 December 2008: £9,937,000) and retained a positive balance on its profit and loss account of £3,117,000 (31 December 2008: positive balance of £3,518,000). During the year, a transfer of £994,000 has been made from the special reserve to the profit and loss account to offset losses arising on disposals in the year: see note 14.

Share capital

The Directors provide the following information about the Company's securities.

The Company's capital structure is shown on page 35. 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. There are no substantial shareholdings.

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 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 are 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 20. 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 40.

Purchase and cancellation of shares

During the year 980,841, representing 1.2% of the issued share capital, ordinary shares of 1p each were bought in by the Company for cancellation at a total cost of £146,168. The impact on the net asset value was to increase it by 0.3 pence per share. The purpose of the share buybacks 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 buyback 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' report (cont.)

Directors

The Directors of the Company at 31 December 2009 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 2009	31 December 2008
RA Wright (Chairman)	129,226	129,226
TW Chambers (appointed 13 January 2010)	-	-
APM Lamb	21,646	21,646
JR Patel	-	-

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 19 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 2009 are set out in note 4 of the financial statements.

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.

Insurance

As provided for in the Company's Articles of Association, the Company has continued to maintain directors and officers liability insurance up to an indemnity limit of £5 million.

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 46 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 a 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 seen by many of the Company's shareholders as being important in judging the return on their investment. The market price of the Company's shares is, in principle, linked to reported net asset value and the market's perception of the potential for future movements in net asset value and for regular future dividend payments. At the present an overriding factor, however, is the very limited secondary market, a consequence of the tax reliefs available on subscription of new shares in VCTs but not for purchases of existing shares in the market. As a result, the market price of the shares of a VCT typically stands at a discount to reported net asset value. Share buybacks by the VCT itself can represent a source of demand for the shares, in the absence of significant demand from other market participants. In the case of the Company, however, the share buyback transactions undertaken in recent years have not been successful in limiting the level of the share price discount which has continued to be very significant.

The recent review of the future direction of the Company, referred to in the Chairman's statement, has had the aim of determining a strategy that will ensure that investment returns generated from the venture capital portfolio are delivered to shareholders in the most appropriate way. The Board has concluded that, in future, priority will in future be given to the payment of dividends, as and when realisations are achieved. In particular, subject to any tax and regulatory constraints, 50% of the proceeds from any realisations from within the existing venture capital portfolio will be regarded as being available for distribution. As a corollary, while the Company will continue to be willing to make share buybacks of limited volumes of its shares, the Board expects that, going forward, the budget made available to fund buybacks will be more tightly restricted than in previous years.

Principal risks and how the Board seeks to mitigate them

The Company's assets consist principally of unquoted venture capital investments (mainly in equities) and quoted venture capital investments (in equities): 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 18 to the financial statements.

Objective, strategy and investment performance

The results of the Board's recent review of the objective (in terms of the delivery of investment returns to shareholders), strategy and investment performance of the Company are set out in the Chairman's statement.

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 2009 there were no days billings from the suppliers of services outstanding (31 December 2008: nil).

Substantial shareholdings

As at 31 December 2009 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 ("AGM")

The AGM will be held at the offices of Nabarro LLP, Lacon House, 84 Theobald's Road, London WC1X 8RW at 12:00 noon on Friday 14 May 2010. The Notice of AGM is set out at the end of this document.

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 forthcoming AGM.

By order of the Board

NT Tran
Secretary

31 March 2010

Statement of corporate governance

This statement of corporate governance is required by the Disclosure and Transparency Rules DTR 7.2 and forms part of the Directors' report. Except where stated, the Board considers that the Company has complied throughout the year with the provisions of Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 and the application of those provisions is set out below.

The Board

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 of Association 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 Audit Committee meetings during the year ended 31 December 2009 was as follows:

	Scheduled Board meetings	Scheduled Audit committee meetings
RA Wright (Chairman)	6/6	2/2
APM Lamb	6/6	2/2
JR Patel	6/6	n/a
PM Seely (resigned 19 August 2009)	3/6	2/2

In addition to the meetings referred to above, a number of further Board 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 2008 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 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, Alan Lamb is proposed for re-election by rotation. In addition, in accordance with the Listing Rules, JR Patel offers himself for annual re-election. The Chairman's own evaluation is performed by the other Directors, who consider that his performance continues to be effective and 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. The Manager is not represented on the Audit Committee, hence, the Audit Committee is entirely independent of the Manager. The Audit Committee, during the year, was chaired by APM Lamb in accordance with the Combined Code on Corporate Governance. TW Chambers, upon his appointment to the Board on 13 January 2010, replaced APM Lamb as the chairman of the Audit Committee. 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 half yearly financial report and 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 Audit Committee considers the independence and objectivity of the auditors, Grant Thornton UK LLP, taking into account the tenure of the audit partner and staff and the nature and level of services provided by the auditors. The auditor 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 of the auditor. The Audit Committee receives confirmation from the auditors that they have complied with the relevant UK professional and regulatory requirements on independence. 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 AGM will be held on 14 May 2010 when shareholders will have the opportunity to meet the Board. The Notice of Meeting is set out on page 40. Separate resolutions are proposed at the AGM on each substantially separate issue. 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 8 to the Large & Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. 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 on page 39.

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 £45,000 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 37.9p, 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.

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
RA Wright	20	20
RE Burger (resigned 6 October 2008)	-	12
APM Lamb	15	15
JR Patel ⁽¹⁾	-	-
PM Seely (resigned 19 August 2009)	10	1
	<u>45</u>	<u>48</u>

None of the Directors received any other remuneration or benefit during the year except as disclosed in these financial statements.
(1) JR Patel waived his entitlement to Director's fees for the year ended 31 December 2009.

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 was approved by the Board of Directors on 31 March 2010 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 AGM.

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 adequate 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 2006. 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 website (www.sparkvct.com), 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
31 March 2010

Income statement for the year to 31 December 2009

	Notes	Year ended 31.12.09 Revenue £'000	Year ended 31.12.09 Capital £'000	Year ended 31.12.09 Total £'000	Year ended 31.12.08 Revenue £'000	Year ended 31.12.08 Capital £'000	Year ended 31.12.08 Total £'000
Loss on valuation of investments at fair value through profit or loss	10(d)	-	(3,950)	(3,950)	-	(4,084)	(4,084)
Gain/(loss) on disposal of investments at fair value through profit or loss	10(d)	-	188	188	-	(526)	(526)
Income	2	114	-	114	235	-	235
Recoverable VAT	3	-	-	-	400	-	400
Investment management fee	4	(512)	-	(512)	(592)	-	(592)
Other expenses	5	(260)	-	(260)	(661)	-	(661)
Loss on operating activities		(658)	(3,762)	(4,420)	(618)	(4,610)	(5,228)
Interest payable on loan notes		-	-	-	(5)	-	(5)
Loss on ordinary activities before taxation		(658)	(3,762)	(4,420)	(623)	(4,610)	(5,233)
Tax on loss on ordinary activities	7	-	-	-	-	-	-
Loss on ordinary activities after taxation		(658)	(3,762)	(4,420)	(623)	(4,610)	(5,233)
Basic and fully diluted loss per share	9	(0.9)p	(4.8)p	(5.7)p	(1.1)p	(8.3)p	(9.4)p

The 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under the guidance published by the Association of Investment Companies.

All revenue and capital 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 income statement of the Company.

The accompanying notes are an integral part of this statement.

Balance sheet as at 31 December 2009

	Notes	31 December 2009 £'000	31 December 2008 £'000
Fixed assets			
Investments at fair value through profit or loss	10(a)	17,743	20,489
Current assets			
Debtors	11	282	1,364
Cash at bank		6,136	7,139
		6,418	8,503
Creditors: amounts falling due within one year	12	(132)	(397)
Net current assets		6,286	8,106
Net assets		24,029	28,595
Capital and reserves			
Called-up share capital	13	775	785
Share premium account	14	339	339
Capital redemption reserve	14	89	79
Special reserve	14	20,056	21,196
Investment holding losses	14	(12,962)	(9,937)
Merger reserve	14	12,615	12,615
Profit and loss account	14	3,117	3,518
Total equity shareholders' funds		24,029	28,595
Net asset value per share	15	31.0p	36.4p

The financial statements on pages 24 to 38 were approved by the Directors on 31 March 2010 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 2009

	Notes	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Cash inflow/(outflow) from operating activities	16	159	(1,954)
Financial investment			
Purchase of venture capital investments	10(b)	(1,335)	(1,584)
Purchase of listed equities		-	(158)
Sale of venture capital investments	10(b)	84	4,381
Sale/redemption of listed equity		-	2,933
Amounts recovered from investments previously written off	10(d)	235	97
Total net financial investment		(1,016)	5,669
Equity dividends paid	8	-	(467)
Financing			
Funds received as part of merger		-	3,792
Buyback of ordinary shares	13	(146)	(395)
Redemption of loan notes		-	(100)
Net interest on loan notes		-	(5)
Total financing		(146)	3,292
(Decrease)/increase in cash for the year		(1,003)	6,540
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash for the year		(1,003)	6,540
Net funds at the start of the year		7,139	599
Net funds at the end of the year		6,136	7,139

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 2009

	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Investment holding losses £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
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	-
Investment holding loss on valuation of investments	-	-	-	-	(3,930)	-	3,930	-
Loss on ordinary activities before taxation	-	-	-	-	-	-	(5,233)	(5,233)
Dividends	-	-	-	-	-	-	(467)	(467)
At 31 December 2008	785	339	79	21,196	(9,937)	12,615	3,518	28,595
Shares purchased for cancellation	(10)	-	10	(146)	-	-	-	(146)
Realisation of prior years' net losses on investments	-	-	-	-	925	-	(925)	-
Transfer from special reserve to profit and loss account	-	-	-	(994)	-	-	994	-
Investment holding loss on valuation of investments	-	-	-	-	(3,950)	-	3,950	-
Loss on ordinary activities after taxation	-	-	-	-	-	-	(4,420)	(4,420)
Dividends	-	-	-	-	-	-	-	-
At 31 December 2009	775	339	89	20,056	(12,962)	12,615	3,117	24,029

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

The 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 and the Statements of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies in January 2009.

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:

- Listed and other quoted investments are valued at their bid prices at the close of the year as issued by the London Stock Exchange; investments listed or quoted 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 an 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 the exemptions under 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

Gains and losses arising from changes in the fair value of the investments are included in the income statement for the year as a capital item and are allocated to the investment holding losses.

Income

Dividends receivable on quoted 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. Income from deposit interest is included on an effective interest rate basis.

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 buyback of shares are charged to the special reserve. All other expenses including management fees are presented within the revenue column on the income statement.

Taxation

Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the year. 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 investment holding losses 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

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Dividend income		
– Listed companies – UK	1	28
– Listed companies – foreign	–	31
Interest receivable		
– Loans to venture capital investee companies	24	1
– Bank deposits	1	34
– VAT	28	–
Other income (global treasury fund)	60	141
	114	235

3 Recoverable VAT

In the income statement to 31 December 2008, the Company recognised VAT recoverable of £400,000. During the year to 31 December 2009, the Manager received a repayment of £400,000 from HMRC, which was passed on to the Company. 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.

Notes to the financial statements (cont.)

4 Investment management fee

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Investment management fee	512	505
Irrecoverable VAT	-	87
	512	592

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

SVML is a wholly owned subsidiary of SPARK Venture Management Holdings Limited, 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. 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. In line with the ruling against HMRC (see note 3) no further VAT was charged after this point.

SVML also provides administrative and secretarial services to the Company for which it was entitled to a fee of £61,000 for the year (31 December 2008: £61,000) adjusted annually in line with changes in the Retail Price Index.

5 Other expenses

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Administrative and secretarial services	61	61
Directors' remuneration (note 6)	45	48
Auditor's remuneration		
- Fees payable to the Company's auditor for audit of the financial statements	17	17
- Fees payable to the Company's auditor and its associates for other services relating to the merger	-	35
- Fees payable to the Company's auditor and its associates for other services relating to tax	7	16
Legal and professional expenses, including merger costs	45	333
Payment on account to HMRC	11	-
Insurance	6	7
UKLA, LSE and registrar's fees	26	29
Transaction costs	4	15
Irrecoverable VAT	5	55
Other	33	45
	260	661

6 Directors' remuneration

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Amounts payable to Directors or companies controlled by them	45	48

The total fees paid or payable in respect of individual Directors for the year is detailed in the Directors' remuneration report on page 22.

7 Tax on ordinary activities

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Corporation tax	-	-

Reconciliation of loss on ordinary activities to taxation

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Loss on ordinary activities before taxation	(4,420)	(5,233)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (31 December 2008: 28.5%)	(1,238)	(1,491)
Effects of:		
Non taxable items - UK dividends and net losses on investments	1,106	1,306
Unutilised management expenses	132	185
	-	-

The Company has excess trading losses of £5,491,000 (2008: £5,020,000) that are available for offset against future profits. A deferred tax asset of £1,538,000 (2008: £1,406,000) 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

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Final dividend: 1p per share paid on 24 June 2008	-	467

The total reserves available for distribution by way of a dividend is £10,211,000 (31 December 2008: £14,777,000), being made up of the special reserve and profit and loss account less investment holding losses.

The Directors do not recommend a dividend for the year ended 31 December 2009.

Notes to the financial statements (cont.)

9 Earnings per share

The revenue loss per share of 0.9p (31 December 2008: loss 1.1p) is based on the revenue loss on ordinary activities after tax of £658,000 (31 December 2008: loss £623,000) and on the weighted average number of ordinary shares in issue during the year of 77,968,095 (31 December 2008: 55,670,213).

The capital loss per share of 4.8p (31 December 2008: loss 8.3p) is based on the capital loss on ordinary activities after tax of £3,762,000 (31 December 2008: loss £4,610,000) and on the weighted average number of ordinary shares in issue during the year of 77,968,095 (31 December 2008: 55,670,213).

The total loss per share of 5.7p (31 December 2008: loss 9.4p) is based on the total loss on ordinary activities after tax of £4,420,000 (31 December 2008: loss £5,233,000) and on the weighted average number of ordinary shares in issue during the year of 77,968,095 (31 December 2008: 55,670,213).

10 Investments

10(a) Summary of investments

	31.12.09 £'000	31.12.08 £'000
Venture capital investments	17,743	20,489

10(b) Movements in investments

	Venture capital investments £'000
Cost at 1 January 2009	30,426
Investment holding losses at 1 January 2009	(9,937)
Valuation at 1 January 2009	20,489
Movements in the year:	
Purchases at cost	1,335
Disposals	
– proceeds	(84)
– net losses on disposal	(47)
Net loss on valuation of investments	(3,950)
Valuation at 31 December 2009	17,743
Book cost at 31 December 2009	30,705
Investment holding losses at 31 December 2009	(12,962)
Valuation at 31 December 2009	17,743

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

10(c) Venture capital investments

	Valuation at 01.01.09 £'000	Additions £'000	Disposals £'000	Investment holding gains/(losses) £'000	Valuation at 31.12.09 £'000
Fifteen largest venture capital investments					
Workshare Limited	3,066	-	-	10	3,076
Xtera Communications, Inc.	1,656	123	-	-	1,779
UniServity Limited	1,400	292	-	-	1,692
Oxford Immunotec Limited	1,802	142	-	(598)	1,346
Elateral Holdings Limited	1,048	-	-	113	1,161
Xention Limited	1,815	244	-	(1,096)	963
Level Four Software Limited	795	-	-	-	795
Cluster Seven Limited	765	-	-	-	765
Portrait Software plc <i>AIM</i>	216	-	-	520	736
Vivacta Limited	856	91	-	(215)	732
Sift Group Limited	698	47	-	(98)	647
Celona Technologies Limited	983	232	-	(699)	516
Imagesound plc	489	-	-	-	489
MediGene AG <i>FRANKFURT</i>	616	-	-	(129)	487
Antenova Limited	659	-	-	(211)	448
	16,864	1,171	-	(2,403)	15,632
Other unquoted venture capital investments	2,682	158	-	(1,401)	1,439
Other quoted venture capital investments	812	6	-	(146)	672
	20,358	1,335	-	(3,950)	17,743
Investments exited during the year	131	-	(131)	-	-
	20,489	1,335	(131)	(3,950)	17,743

Transaction costs relating to the purchase of venture capital investments are not capitalised.

FRS 29 analysis	£'000
Level 1: quoted venture capital investments ⁽¹⁾	1,895
Level 3: unquoted venture capital investments	15,848
	17,743

(1) All level 1 investments are in an active market.

Level 3 reconciliation	£'000
Valuation at 1 January 2009	18,837
Purchases at cost	1,329
Disposals	
- proceeds	(70)
- realised net losses on disposal ⁽³⁾	(53)
Investment holding losses ⁽⁴⁾	(4,195)
Valuation at 31 December 2009	15,848

(3) Realised net losses on disposal are included within "Loss on disposal at fair value through profit or loss" in the Income Statement.

(4) Investment holding losses are included within "Loss on valuation of investments at fair value through profit or loss" in the Income Statement.

Notes to the financial statements (cont.)

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:

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Loss on valuation of investments at fair value through profit or loss		
Net loss on valuation of investments	(3,950)	(3,930)
Write-off of investments	-	(154)
	(3,950)	(4,084)
Gain/(loss) on disposal of investments at fair value through profit or loss		
Net loss on disposal of investments	(47)	(623)
Additional proceeds received in respect of investments previously disposed of and recoveries made in respect of investments previously written off	235	97
	188	(526)
	(3,762)	(4,610)

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

10(e) Significant holdings

Details of shareholdings in those companies where the Company's holding at 31 December 2009 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	14,350	9.1%
	B Ordinary shares	25,960	58.3%
	A Ordinary shares	50,256	58.3%

11 Debtors

	31.12.09 £'000	31.12.08 £'000
Other debtors	178	1,220
Prepayments and accrued income	104	144
	282	1,364

12 Creditors (amounts falling due within one year)

	31.12.09 £'000	31.12.08 £'000
Accruals	89	355
Other creditors	43	42
	132	397

13 Called-up share capital

	31.12.09 £'000	31.12.08 £'000
Authorised: 100,000,000 (31.12.08: 100,000,000) ordinary shares of 1p	1,000	1,000
Allotted, issued and fully paid: 77,554,035 (31.12.08: 78,534,876) ordinary shares of 1p	775	785

The Company bought back for cancellation 980,841 ordinary shares, representing 1.2% of the opening issued share capital, at a cost of £146,168.

14 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Investment holding losses £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 2009	339	79	21,196	(9,937)	12,615	3,518
Shares purchased for cancellation	-	10	(146)	-	-	-
Realisation of prior years' net losses on investments	-	-	-	925	-	(925)
Transfer from special reserve to profit and loss account	-	-	(994)	-	-	994
Investment holding loss on valuation of investments	-	-	-	(3,950)	-	3,950
Loss on ordinary activities after taxation	-	-	-	-	-	(4,420)
Dividends	-	-	-	-	-	-
At 31 December 2009	339	89	20,056	(12,962)	12,615	3,117

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

The special reserve is a distributable reserve that was created in November 2000 following the reduction of the share premium account. This reserve allows the Company, amongst other things, to fund the buyback 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, for investments that have been fair valued to zero with no chance of recovery, the cost of those investments.

Accordingly, a transfer of £994,000 (including £47,000 representing losses on disposal of investments during the year and £925,000 representing losses of previous years now treated as realised or written off) has been made from the special reserve to the profit and loss account.

15 Net asset value per share

The net asset value per share as at 31 December 2009 of 31.0p (31 December 2008: 36.4p) is based on net assets of £24,029,000 (31 December 2008: £28,595,000) divided by the 77,554,035 ordinary shares in issue at that date (31 December 2008: 78,534,876).

16 Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	Year ended 31.12.09 £'000	Year ended 31.12.08 £'000
Loss on operating activities	(4,420)	(5,228)
Loss on investments at fair value through profit or loss	3,762	4,610
Decrease/(increase) in debtors	1,082	(1,224)
Decrease in creditors	(265)	(112)
Cash inflow/(outflow) from operating activities	159	(1,954)

Notes to the financial statements (cont.)

17 Commitments and guarantees

As at 31 December 2009, there were legal commitments totalling £451,000 (31 December 2008: £80,000) in respect of further funding to be provided to existing investee companies. There were no guarantees outstanding (31 December 2008: £nil).

18 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 15. 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 and cash equivalents held for follow-on financing and new venture capital investment and debtors and creditors that arise directly from its operations. At 31 December 2009, 73.8% (£17.7 million) of the Company's net assets were invested in venture capital investments and 26.2% (£6.3 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 (2008: same). Interest on loans to venture capital investee companies is at a fixed rate. With interest income of £25,000 to 31 December 2009 (31 December 2008: £35,000), 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 8.3% (31 December 2008: 7.5%) (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 £1,473,000 (31 December 2008: £1,613,000) in profit before tax, which would affect the net asset value by 1.9p (31 December 2008: 2.1p) per share.

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:

	31.12.09 £'000	31.12.08 £'000
Cash and cash equivalents	6,136	7,139

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 total return to shareholders (net asset value plus cumulative dividends paid). As a result of the recent strategy review, this objective has been varied from the previous accounting year: in future, within the components of total return, priority will be given to the payment of dividends as and when realisations are achieved. In particular, subject to any tax or regulatory constraints, 50% of the proceeds from any realisations from within the existing venture capital portfolio will be regarded as available for distribution. It is likely, therefore, that the net asset value of the fund will decline as dividends are paid, although to the extent that investments are realised at amounts in excess of the valuations at 31 December 2009, and subject to the ongoing operating costs of the fund, total return will increase.

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 2009 is £24.0 million (31 December 2008: £28.6 million) as shown in the balance sheet, which includes the Company's share capital and reserves.

Following the Board's recent strategy review, the dividend policy of the Company will now be as set out above. Owing to the nature of a VCT, dividends payable may vary considerably from time to time depending, both on the level of income received from investments and, more significantly, on whether realisations of investments have been achieved. Accordingly the level of dividends will fluctuate and in some periods it is possible that no dividend will be paid.

As regards share buybacks, following the strategy review the Board has determined that the Company will continue to be willing to make buybacks of limited volumes of its shares but expects that, going forward, the budget made available to fund buybacks will be more tightly restricted than in previous years.

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.

Notes to the financial statements (cont.)

19 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 2009, fees of £23,000 attributable to the investments of the Company were received pursuant to these arrangements (31 December 2008: £26,000).

There were no transactions, during the year, by Directors in investments in which the Company has invested (31 December 2008: nil).

20 Co-investment

The Company has made venture capital investments in companies in which other funds managed by SVMML 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, ICF and SPK
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
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
Perpetuum Limited	SVCT and QVP
Secerno Limited	SVCT and ICF
Sift Group Limited	SVCT
Skinkers Limited	SVCT and SPK
Symetrica Limited	SVCT
TeraView Limited	SVCT
UniServity Limited	SVCT
Vivacta Limited	SVCT and QVP
Workshare Limited	SVCT and QVP
Xention Limited	QVP
Xtera Communications, Inc.	QVP

21 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.

After the year end £28,000 was obtained from HMRC being interest on the VAT reclaim made in 2008. This amount has been accrued at year end.

In March 2010 the Company sold 800,000 shares in Portrait Software plc at 24.0p per share.

Independent auditor's report to the members of SPARK VCT 2 plc

We have audited the financial statements of SPARK VCT 2 plc for the year ended 31 December 2009 which comprise the income statement, balance sheet, cash flow statement, reconciliation of movements in shareholders' funds, and notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibility statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the Directors' statement set out on page 19 in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Marcus Swales
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
31 March 2010

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 the offices of Nabarro LLP, Lacon House, 84 Theobald's Road, London WC1X 8RW at 12:00 noon on Friday 14 May 2010 for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 7 will be proposed as ordinary resolutions and numbers 8 to 11 will be proposed as special resolutions.

- 1** To receive, consider and adopt the annual report and accounts for the year ended 31 December 2009, together with 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 2009.
- 3** To elect TW Chambers as a Director.
- 4** To re-elect APM Lamb 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 for the purposes of section 551 of the Companies Act 2006 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 551):

- (a) the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares and to grant such subscription and conversion rights as are contemplated by sections 551(1)(a) and (b) of the Act respectively up to an aggregate nominal amount of £258,513.45 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution (unless previously revoked or varied by the Company in general meeting); and
- (b) the Company be and is hereby authorised to make prior to the expiry of such period any offer or agreement which would or might require such shares or rights to be allotted or granted after the expiry of the said period and the Directors may allot such shares or grant such rights in pursuance of any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

so that all previous authorities of the Directors pursuant to section 80 of the Companies Act 1985 be and are hereby revoked and to the extent that any restriction on the Directors' authority to allot shall apply to the Company by virtue of the operation of paragraph 42(2)(a) of the Companies Act 2006 (Commencement No.8, Transitional Provisions and Savings) Order 2008, such restriction shall be and is hereby revoked in accordance with paragraph 42(2)(b) of that Order.

8 Authority for the disapplication of pre-emption rights

That, subject to the passing of resolution 7, in accordance with section 570 of the Act, the Directors be and they are hereby empowered to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred on them to allot such shares or grant such rights by that resolution as if section 561(1) and sub-sections (1) – (6) of section 562 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 or stock exchange 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 £38,777.00;

and this power, unless renewed, shall expire on the date five years from the date of the passing of this resolution 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.

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 701 of the Act to make one or more market purchases (within the meaning of section 693 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 7,755,403;
- (b) the minimum price which may be paid for an Ordinary Share is 1p;
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be an amount equal to the higher of (i) 5% above the average of the middle market quotations for an Ordinary Share taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share as derived from the trading venue where the purchase is carried out;
- (d) unless previously renewed or revoked, the authority hereby conferred shall expire on the date which is the earlier of fifteen months from the date of this resolution and the date of the AGM of the Company in 2011; 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.

10 Notice of general meetings

That a general meeting of the Company other than an annual general meeting may be called on not less than 14 clear days' notice.

11 Adoption of new Articles of Association

That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the current Articles of Association of the Company as adopted on 20 June 2008.

By order of the Board
NT Tran
Secretary

33 Glasshouse Street
London W1B 5DG
31 March 2010

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, PXS, 34 Beckenham Road, Beckenham BR3 4TU by not later than 12:00 noon on 12 May 2010. Completion of a form of proxy will not affect the right of a shareholder to attend and vote at the meeting.
3. Only those shareholders entered on the shareholder register of the Company at 12:00 noon on 12 May 2010 or, in the event that this meeting is adjourned, on the shareholder register as at 12 noon on the day two days before the date of any adjourned meeting, will be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their names at that time. Changes to the entries on the shareholder 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 AGM 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.

Notice of annual general meeting (cont.)

Explanation of the proposed resolutions

Further explanations of the following resolutions proposed to be put to the shareholders at the AGM are now provided:

Authority to allot shares (Resolution 7 – ordinary resolution)

This resolution proposes to renew the Directors' authority to allot additional shares of the Company up to an aggregate nominal amount of £258,513.45, which represents one-third of the issued ordinary share capital of the Company. The Directors have no present intention to exercise this authority. The authority will lapse five years after it is granted.

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 £38,777.00 (being 5% 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 7,755,403 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 can enhance the net asset value per share for the Company's remaining shareholders, and 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 and would enhance the Company's net assets per share. In particular, in keeping with the Company's strategic announcement released on 29 January 2010, the Directors expect that, going forward, the budget made available to fund buybacks will be more tightly restricted than in previous years. The maximum price that may be paid for an ordinary share will be an amount equal to the higher of (i) 5% above the average of the middle market quotations for an ordinary share taken from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made and (ii) the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out. Shares that are purchased will be cancelled.

Notice of general meetings (Resolution 10 – special resolution)

This resolution seeks authority from shareholders to hold general meetings (other than Annual General Meetings) on 14 days' clear notice. This is permissible under the existing Articles of Association of the Company and the Companies Act 2006. However, pursuant to The Companies (Shareholders' Rights) Regulations 2009 specific shareholder approval is required annually in order to retain this ability. The Directors believe that there may be circumstances in which it will be important for the Company to be able to call meetings at such short notice. Accordingly, the Directors believe that it is important for the Company to retain this flexibility.

The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

Adoption of new articles of association (Resolution 11 – special resolution)

This resolution proposes to adopt new Articles of Association (the "New Articles") in order to update the Company's current Articles of Association (the "Current Articles") primarily to take account of the implementation on 1 October 2009 of the last parts of the Companies Act 2006 and also the coming into force of The Companies (Shareholders' Rights) Regulations 2009.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or conform the language of the New Articles with that used in the model articles for public companies set out in secondary legislation have not been noted in the summary below. The New Articles showing all the changes to the Current Articles are available for inspection at the Company's registered office.

Explanatory notes of the principal changes to the Company's Articles of Association

The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles of Association. The Company's Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006 from 1 October 2009 the objects clause and all other provisions which are currently contained in a company's memorandum for existing companies have been deemed to be contained in a company's articles of association but the company can remove some of these provisions by special resolution.

The Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause which, by virtue of the Companies Act 2006, has been treated as forming part of the Company's Articles of Association since 1 October 2009. Resolution 11 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of Association regarding limited liability and the location of the Company's registered office, the New Articles also contain express provisions reflecting these statements.

Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 have been amended in the New Articles to bring them into line with the Companies Act 2006, or removed altogether where appropriate. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

Change of name

Under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

Redeemable shares

Under the Companies Act 1985 if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead, provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way.

Authority to consolidate and sub-divide shares, and reduce share capital

Under the Companies Act 1985 a company required specific enabling provisions in its articles to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly, the relevant enabling provisions have been removed in the New Articles.

Provision for employees on cessation of business

The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary, may only be exercised by the directors if they are so authorised by the company's articles or by the company in general meeting. The New Articles provide that the directors may exercise this power.

Use of seals

Under the Companies Act 1985 a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006 such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas

Notice of annual general meeting (cont.)

previously the requirement was for signature by either a director and the secretary or two directors or such other person or persons as the directors may approve.

Suspension of registration of share transfers

The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

Vacation of office by directors

The Current Articles specify the circumstances in which a Director must vacate office. The New Articles update these provisions to reflect the approach taken on mental and physical incapacity in the model articles for public companies set out in secondary legislation.

Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes.

Voting by corporate representatives

The Shareholders' Rights Regulations have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles reflect these amendments.

Chairman's casting vote

The New Articles remove the provision giving the Chairman a casting vote in the event of an equality of votes as this is no longer permitted under the Companies Act 2006.

Notice of general meetings

The Shareholders' Rights Regulations amend the Companies Act 2006 to require the company to give 21 clear days' notice of general meetings unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual general meetings must be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

Adjournments for lack of quorum

Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

Contacts

Directors

RA Wright (Chairman)
TW Chambers
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

Execution Noble Limited
The Old Truman Brewery
91 Brick Lane
London E1 6QL

Solicitors

Travers Smith LLP
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

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 plc
280 Bishopsgate
London EC2M 4RB

Shareholder information

Annual General Meeting

12:00 noon on Friday 14 May 2010

The notice of Annual General Meeting is contained in this report. A proxy form is enclosed with this report. To be valid, completed proxy forms should be returned to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, no later than 12:00 noon on 12 May 2010.

Share price and net asset value announcements

The Company's ordinary shares are admitted on the Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange. Share price information can be obtained from many financial websites.

The Company announces changes in its net asset value on a quarterly basis. However, no announcements are made in respect of year end net asset values until the audited results are available. The Half Yearly Financial Report and the Interim Management Statements are not 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. In particular, in keeping with the Company's strategic announcement released on 29 January 2010, the Directors expect that, going forward, the budget made available to fund buybacks will be more tightly restricted than in previous years. Shareholders seeking to sell their shares should contact the Company's stockbroker, Execution Noble Limited, on 0203 364 6731.

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

To access details of shareholdings, please contact Capita Registrars on 0871 664 0300.

Company news, latest announced NAVs and financial reports can be found on the Company's website (www.sparkvct.com).

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

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