

ADVENT VCT plc



Annual Report  Accounts
29 February 2004

Contents

Objective, Highlights and Venture Capital Trust Status	1
Chairman's Statement	2-3
Manager's Review	4-5
Investment Portfolio Summary	6
Board of Directors	7
Directors' Report	8-10
Directors' Remuneration Report	11
Corporate Governance	12-13
Statement of Directors' Responsibilities in respect of the Accounts	13
Independent Auditors' Report to the Shareholders of Advent 2 VCT plc	14-15
Profit and Loss Account	16
Statement of Total Recognised Gains and Losses	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Accounts	19-29
Notice of Annual General Meeting	30-31
Corporate Information	

ADVENT  VCT plc

Annual Report

for the year ended 29 February 2004

Objective

The objective of Advent 2 VCT is to provide investors with an attractive return, principally by maximising the stream of dividend distributions from the income and capital gains generated by a portfolio of investments mainly in established unquoted companies in the United Kingdom.

Highlights

- The Company invested £0.85m in follow on funding rounds in three portfolio companies, namely Regio, Enseal Systems and Casella.
- A number of portfolio companies now have stronger sales pipelines and order books, reflecting increased customer demand during the second half of the year.
- During the year, upward revaluations totalling £0.9m were made as a result of improved trading performance and prospects.
- Adverse market conditions, chiefly in the first half of the year, resulted in the write-off of the investment in four companies. Full provision had been made against the cost of two investments in the previous year. Provisions in the year amounted to £1.2m against two investments.
- A number of preliminary approaches have been received from possible purchasers or merger partners for certain companies in the portfolio which may or may not lead to offers being made in due course.

	Year ended 29 February 2004	Year ended 28 February 2003
Earnings per ordinary share	(16.9)p	(15.1)p
Net asset value per ordinary share	44.3p	51.0p
Net asset value per ordinary share (includes all dividends paid)	66.1p	72.8p

- A final dividend is not being recommended.
- The company continues to exceed the 70% requirement for investment in Qualifying Holdings set by the Inland Revenue.

Venture Capital Trust Status

Advent 2 VCT has been granted approval under section 842AA of the Income and Corporation Taxes Act 1988 and it is intended that the business of the company be carried on so as to comply with that section.

Chairman's Statement

I indicated in my interim statement that our portfolio companies were still experiencing challenging market conditions but that the first signs of a recovery were becoming evident. The impact of these trading conditions had an adverse impact on a small number of portfolio companies resulting in the net asset value of the company reducing from 51.0p per share at 28 February 2003 to 45.4p per share at 31 August 2003. Market conditions continued to improve somewhat in the second half of the year to 29 February 2004 and there are now clear signs that the recovery is building further. The net asset value stabilised and at 29 February 2004 was 44.3p per share. After a long period of focusing on cost control and preserving cash resources, the Manager's 'hands-on' management approach is now focusing on ensuring that portfolio companies increase the effectiveness of their sales efforts. As circumstances continue to improve, there is now increasing evidence that the portfolio has the potential to deliver improving value.

Investment activity

During the year, £0.85m was invested in three existing portfolio companies to meet their funding requirements but no new investments were made. In August 2003, on the back of a rising share price, £0.1m cash was realised from the sale of the residual investment in ADVA. In February 2004, reflecting a positive re-rating of the shares, the investment in XKO Group was sold for over £0.5m cash, a small discount to original cost. The investments in Rodaris and Nexan, against which full provisions were made last year, were written off as were the investments in Weston Antennas Ltd, which was unable to raise further funds following delays in potential orders, and Radiant Networks plc, which also failed to raise further funds in late 2003 following its failure to secure a major customer. Provisions against cost have been increased on two further companies. On the other hand, improved prospects have enabled provisions to be reduced on the investments in Vectorcommand and Advanced Visual Technology.

As referred to above, prospects are beginning to improve across many portfolio companies. Footfall and Healthgain have produced strong trading performance. EnSeal Systems and Prismtech have secured significant orders for deployment of their technology. In addition, Elam-T Ltd and DNA Research Innovations have achieved key milestones for their technologies and are progressing to commercialisation.

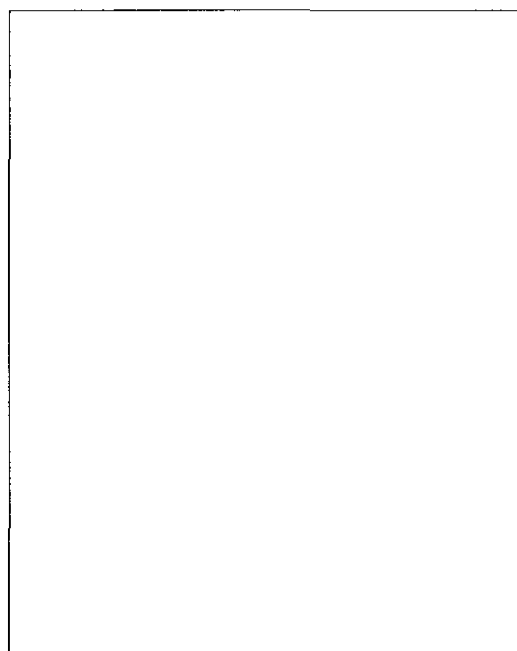
The Company continues to exceed the 70% minimum requirement set by the Inland Revenue for qualifying holdings, thereby maintaining continued Venture Capital Trust status.

Balance Sheet

The net asset value per share as at 29 February 2004 was 44.3p compared with 51.0p as at 28 February 2003 (and 45.4p per share as at the half year, 31 August 2003). The investments in the portfolio have been valued in accordance with guidelines issued by the British Venture Capital Association.

Dividend

The Company realised no gains and had a low level of income during the year. The Board is therefore not recommending a dividend. The gross cumulative dividends paid since the inception of the Company is 21.8p.



Roger Brooke

Chairman's Statement

Continued

Purchase of own shares

Occasional market purchases by the Company of its own shares provide an additional measure of liquidity in the market for the Company's shares and enhance the net asset value per share for the remaining shareholders. It continues to be a policy of the Company to consider the repurchase of shares when they become available. The need to maintain cash resources for follow on investments has not enabled the Company to repurchase any shares during the year.

Borrowing

In last year's report, I highlighted the lack of cash available within the Company. Consequently, the Company agreed a £1.5m borrowing facility with its bankers, of which £0.6m was drawn as at 29 February 2004. Advent Limited continues to provide a guarantee for these borrowings.

Outlook

A year ago, I reported that there was little imminent likelihood of a sustained recovery in markets and hence the portfolio's fortunes. There is now clear evidence that the market environment has stabilised and is improving for a number of portfolio companies. Following a long period of 'battening down the hatches' and focusing on cost reduction and cash preservation, many companies are now beginning to see gradually increasing customer demand. Although still early days in the recovery, portfolio companies are now increasing their sales and marketing efforts and ensuring they have sufficient human and financial

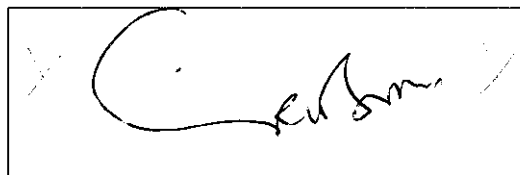
resources to manage growing order books and sales. However, raising finance on acceptable terms is still difficult.

Although uncertainty remains about the strength and sustainability of the recovery and in the economy at large, the Manager is confident that a number of companies in the portfolio have the potential to generate value provided that circumstances continue to improve.

A number of preliminary approaches have been received from possible purchasers or merger partners relating to certain companies in the portfolio and these approaches may or may not lead to offers being made in due course.

The Board remains concerned at the further decline in the net asset value of the Company but is encouraged by the levelling off over the second half of the year and is satisfied that the Manager is adopting the correct approach to generate improved capital gains. Advent Limited has provided a substantial guarantee in respect of the Company's borrowings, demonstrating Advent's belief in the Company's future prospects.

Finally, the Board expresses their thanks to David Thompson, who has left the company, for his services as a director and wish him well for the future.



Roger Brooke

Manager's Review

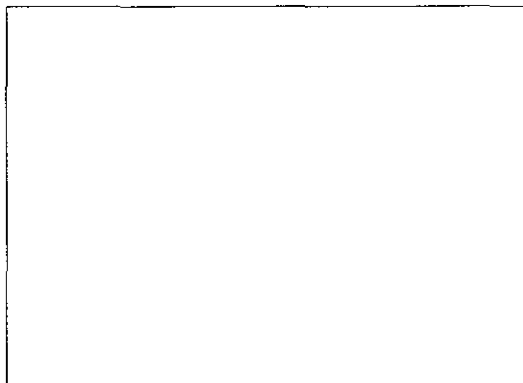
Advent Fund Managers Limited

Portfolio review

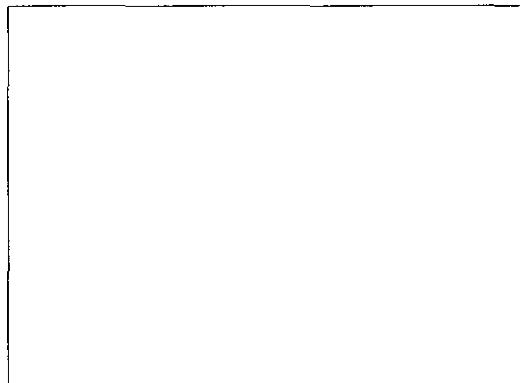
Last year, the Manager's efforts were focused on ensuring that portfolio companies survived by reducing their costs substantially, preserving cash and avoiding seeking new funds in a hostile market. Cash conservation still remains a high priority as the external funding environment remains difficult. Although these adverse market conditions continued during the first half of the year under review, there were some signs of an incipient recovery by Autumn 2003. Market conditions improved gradually in the second half for a number of portfolio companies, reflecting stronger customer demand, particularly from larger companies relaxing their restrictions on capital expenditure, as shown by growing sales pipelines and order books. The Manager is now ensuring that portfolio companies take advantage of this gradual recovery by increasing the effectiveness of their sales and marketing efforts and ensuring each company has sufficient resources to handle the orders won while still maintaining strong control over costs and cash. With low cost bases achieved by cutting costs, portfolio companies should benefit from any such increases in sales.

A further £0.85m was invested in three portfolio companies. £97k was invested in Regio to support continued product development and sales and marketing activity following its success in early 2003 in securing a large contract with a NHS buying organisation. An additional £250k was invested in Enseal Systems to support commercialisation of its patented seal encoding technology which was successfully deployed as an anti-fraud measure on US Treasury cheques and deals were signed with major US banks. An additional £506k was invested in Casella as part of a refinancing. Casella, one of the UK's leading environmental consultancies, has now returned to positive cash generation and is looking to resume growth.

A number of portfolio companies will require follow on investment during the current year. Regio and Advanced Visual Technology are likely to require further financing to support sales and marketing activities. Elam T is engaged in product trials with some leading global companies but it will require further funding in advance of major orders. Further investment in other companies may be considered in order to accelerate business development. Your



To take advantage of short term improvements in their share prices and also improve the Company's cash position, the listed equity investments in ADVA and XKO Group were realised, generating £0.1m and £0.5m of cash respectively. Overall, the investment in ADVA generated a profit of some £4m and a total return multiple of 3.8 times the original cost of £1.7m while the shares in XKO Group were sold at a small discount to cost. The Company has utilised £0.6m of the £1.5m bank facility available to fund follow on investments. Advent Limited has continued to provide a guarantee in support of these borrowings.



Manager will continue to carefully consider the investment terms and implications in deciding whether or not to participate in these funding rounds.

Investments in four companies were written off during the year. Full provisions had already been made last year against the investments in Nexan Group and Rodaris Pharmaceuticals. The investments in Weston Antennas, which manufactured large antennas for satellite communications and Radiant Networks, which was developing fixed wireless broadband network technology,

Manager's Review

Continued

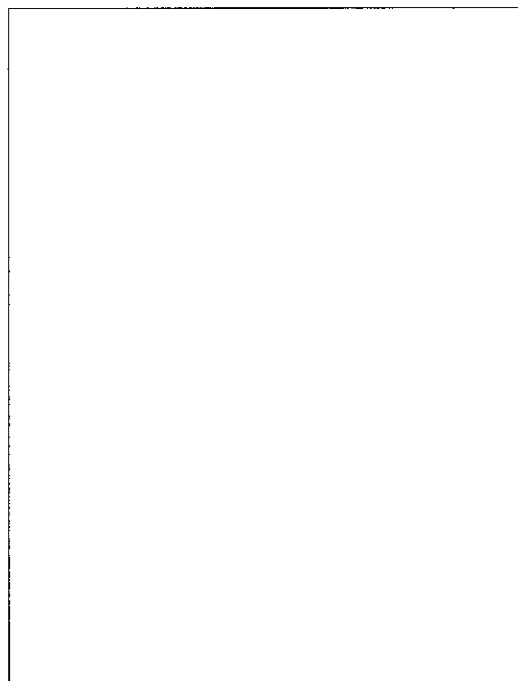
were also written off. Despite a large sales prospect list, Weston suffered from frequent project deferrals and in mid 2003 failed to secure funding. Despite significant technical progress and customer trials, Radiant was unable to meet the demanding timeframes of key customers and, failed to secure further funding. Poor market conditions resulted in further provisions against two companies which have failed to grow sales as quickly as expected.

On a positive note, prospects are beginning to improve across a number of portfolio companies. Footfall, which monitors foot traffic in retail environments and so provides a leading indicator for UK retail activity, grew revenues by 50%, achieved strong profitability and completed the acquisition of a UK competitor. Inca is growing steadily, finding diverse new applications internationally for its large flat bed printers and has a good order book. Healthgain continues to grow strongly through specialisation, notwithstanding a difficult market for healthcare Contract Sales Organisations. Early stage development companies such as Elam-T and DNA Research Innovations have made good technical progress but must now focus on commercialisation. Enseal Systems and IPV remain highly regarded for their technology and are seeing increasing international demand. Vectorcommand Ltd has enhanced its market position, is now a recognised leader in the field of emergency management training and simulation software and has secured orders to develop products for a number of Western governments.

The Company now holds a portfolio of 19 investments compared with 24 at the end of the previous year. The portfolio continues to be diversified by sector focus and stage of development, although the early-stage development companies are now advancing into the commercialisation phase.

Valuation policy

Unquoted investments are valued in accordance with guidelines issued by the British Venture Capital Association. Generally, investments are held at cost unless subsequent pricing events occur or the Manager makes a provision to reflect concerns caused by the underperformance of a portfolio company when compared to original



David Hughes

expectations. Quoted holdings are valued at mid-price less a discount to reflect liquidity and the size of holding.

Outlook

After a difficult start to the year under review, there is growing evidence that the market environment has stabilised and that customer demand is improving for a number of portfolio companies, as reflected in growing sales pipelines and order levels. This gives the Manager some grounds for optimism that within the next year or so the Company's cash position should improve. The Manager believes that the portfolio can generate improved value in the long term.

David Hughes

Investment Portfolio Summary

at 29 February 2004

	Cost £'000	Valuation £'000	% of net assets
Venture capital investments			
Adepra Ltd	1,229	614	3.8%
Advanced Visual Technology Ltd	1,757	1,318	8.3%
DNA Research Innovations Ltd	1,000	1,000	6.3%
Elam-T Ltd	710	710	4.5%
EnSeal Systems Ltd	861	861	5.5%
Eqos Systems Ltd	1,050	1,050	6.6%
Footfall Ltd	1,310	1,270	8.0%
Healthgain Solutions Ltd	1,000	1,000	6.3%
Inca Digital Printers Ltd	756	2,334	14.7%
IPV Ltd	1,520	760	4.8%
Nomad Software Ltd	1,075	806	5.1%
Oasis Healthcare plc ¹	475	182	1.1%
PrismTech Ltd	1,486	743	4.7%
Radiant Networks plc	1,455	–	
Rejo Ltd	1,660	830	5.2%
Signum Technologies Ltd	1,254	–	
Snell & Wilcox (UK) Ltd ²	839	262	1.6%
The Casella Group Ltd	1,597	1,597	10.0%
VectorCommand Ltd	1,469	1,101	7.0%
Total investments	22,503	16,438	103.5%
Net current liabilities		(549)	(3.5)%
Shareholders' funds		15,889	100.0%

¹Investment quoted on AIM

²The cost of £839,000 is made up of the original cost of Post Impressions of £583,000 written down to £6,000 as a result of the acquisition by Snell & Wilcox in August 2001 and the subsequent investment of £256,000

Board of Directors

Roger Brooke

(Chairman)

was until May 1999 chairman of Candover Investments plc, an investment trust investing mainly in management buy-outs, having been chief executive of that company since its formation in 1980. From 1969 to 1971 he was managing director of Scienta SA, which was involved in small and medium-sized advanced technology businesses in Europe. He was a director of Pearson Group for eight years and in 1979 became group managing director of EMI until its merger with Thorn in 1980. He was a director of Advent VCT plc from its launch until July 1998. He is chairman of Accord plc and Innisfree Limited. He is also a director of several unquoted companies, including IP2IPO Ltd.

Philip Stephens

retired from Williams de Broë in 2002 where he was joint head of corporate finance. He was previously a managing director at UBS which he joined in 1989. He was involved in corporate finance and corporate broking for more than thirty-five years. He is currently non-executive chairman of Oakdene Homes plc and INVESCO Geared Opportunities Trust plc. He is also a non-executive director of Business Post Group plc.

Sir David Cooksey

is chairman of the Advent Venture Partners LLP and has been involved in venture capital since 1981 when he founded Advent with support from TA Associates, one of the leading venture capital management firms in the USA. He has been responsible for the development of the activities of Advent since that time. He was the first chairman of the BVCA in 1983/84. He is a director of Advent VCT plc. In addition to his responsibilities within Advent, he is senior non-executive director of the Bank of England and Chairman of the DTI's Small Business Investment Taskforce.

Sir Peter Williams CBE

is chairman of the Engineering and Technology Board and chairman of the National Physical Laboratory. Prior to these appointments, he was Master of St. Catherine's College, Oxford, before which he was respectively chairman and chief executive of Oxford Instruments plc, and, until 1982, Deputy Managing Director of V G Instruments Limited. He is non-executive director of GKN plc and of Advent VCT plc. He is a past President of the British Association for the Advancement of Science and the former chairman of the trustees of the Science Museum and President of the Institute of Physics. He was a member, and latterly chairman, of the Treasury-sponsored Finance Advisory Group on the provision of finance for small high-technology companies.

Directors' Report

The directors present their report and the audited accounts of the Company for the year ended 29 February 2004.

Activities and status

The principal activity of the Company during the year was the making of investments in unquoted companies in the United Kingdom. The Company is not an investment company within the meaning of Section 266 of the Companies Act 1985. However, its affairs have been conducted in a manner to satisfy the conditions to enable it to continue to obtain approval as a venture capital trust under section 842AA of the Income and Corporation Taxes Act 1988.

Results and dividend

The loss on ordinary activities after taxation for the year amounted to £6,055,000 (2003: £5,412,000).

The Board is not recommending a final dividend (2003: nil).

Directors

The directors who held office during the year and their interests in the issued ordinary shares of 5p each of the Company were as follows:

	29 February 2004	1 March 2003
	Number of	Number of
	ordinary shares	ordinary shares
Roger Brooke Chairman	110,000	110,000
Sir David Cooksey	60,100	60,100
Philip Stephens	12,000	12,000
Sir Peter Williams CBE	50,000	50,000
David Thompson (resigned 1 January 2004)	-	55,000

All the directors' share interests shown above were held beneficially.

There have been no changes in the directors' share interests between 29 February 2004 and the date of this report.

Sir David Cooksey is an executive director of Advent Fund Managers Limited, which provides arrangement services and management services in relation to the Company's investments in Qualifying Companies. He is an executive director of Advent 2 Fund Managers Limited, which provides secretarial and other administrative services to the Company.

In accordance with the Articles of Association, Sir David Cooksey retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-appointment. A biographical note on Sir David Cooksey is given on page 7.

Management

Advent Fund Managers Limited is the Manager of the Company and provides management and other administrative services.

From 1 May 2003, Advent 2 Fund Managers Limited took over from Advent Limited as the Secretary of the Company. The principal terms of the original secretarial services agreement (as set out in note 4 of the accounts) remain unchanged.

No fixed interest investments were held in the year. However, Cazenove Fund Management Limited ("Cazenove") continues to be the manager of the Company's gilt and sterling denominated fixed interest portfolio on an execution basis.

Directors' Report

Continued

VCT status monitoring

PricewaterhouseCoopers continue to advise Advent 2 VCT on compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers review investment activity as appropriate and carry out regular reviews of Advent 2 VCT's investment portfolio. PricewaterhouseCoopers work closely with Advent Fund Managers Limited, but report directly to the Board.

Substantial shareholdings

So far as the directors are aware, there were no individual shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Annual General Meeting

Resolutions will be proposed as special business at the Annual General Meeting to renew the authority of the directors to allot the unissued shares of the Company, to grant them renewed authority to allot shares for cash otherwise than pro rata to existing shareholders and to renew the authority for the Company to purchase its own shares. Details are as follows:

Resolution 5: Renewal of directors' authority to allot shares

The Companies Act 1985 prevents the directors of a company from allotting unissued shares without the authority of shareholders in general meeting. The resolution renews the directors' authority to allot relevant securities up to a maximum nominal amount of £447,954.95, representing the aggregate nominal value of the unissued ordinary shares of the Company (equivalent to 24.98% of the ordinary share capital currently in issue), for a period of five years from the date of the Annual General Meeting. The directors have no present intention of exercising the authority.

As all previous authorities of the Directors are expressed to be revoked, a specific exemption has been made in respect of any authority granted by the Special resolution to be proposed at the Extraordinary General Meeting of the Company to be held immediately prior to the Annual General Meeting, if such Special resolution is passed.

Resolution 6: Renewal of directors' authority to issue shares for cash

Under section 89 of the Companies Act 1985, if the directors wish to allot any of the unissued shares for cash they must first offer them to existing shareholders in proportion to their holdings. There may be occasions when directors need the flexibility to allot such shares, without first offering them to existing shareholders. The resolution grants the directors authority to allot unissued shares for cash, without first offering them to existing shareholders in proportion to their holdings, up to a maximum nominal amount of £89,656.88 representing 5% of the issued ordinary share capital of the Company. The power expires at the end of the annual general meeting to be held in 2009 or, if earlier, on 26 July 2009.

Resolution 7: Renewal of authority for the Company to purchase its own shares

The resolution grants power for the Company to purchase its own shares, up to a maximum number representing 5% of the total number of shares currently in issue. The maximum price which may be paid for an ordinary share will be an amount which is not more than 5% above the average of the mid-market quotations of the ordinary shares as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase, and in any event may not exceed the most recently reported net asset value per share. The minimum price, which may be paid for an ordinary share, will be its nominal value, i.e. 5p. The purchase of shares will involve a stamp duty cost to the Company of approximately 0.5% of the purchase price. Shares which are purchased will be cancelled.

In accordance with the Listing Rules of the Financial Services Authority, no purchases will be made by the Company during the two month period immediately preceding the announcement of the Company's year-end results and half-yearly results, or the period from the end of the financial year until the announcement of results, if shorter. The power expires at the end of the annual general meeting to be held in 2005 or, if earlier, on 7 October 2005. 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 shareholders generally.

Directors' Report

Continued

Payment to Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company contracts with its suppliers the terms on which business will take place and abides by such terms.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board



ADVENT 2 FUND MANAGERS LIMITED
Secretary
8 April 2004

Directors' Remuneration Report

for the year ended 29 February 2004

This remuneration report sets out the Company's policy on the remuneration of the Directors together with the details of their remuneration packages. All the directors (with the exception of Sir David Cooksey) who held office in the year to 29 February 2004 are non-executive directors.

Directors' Remuneration:

	2004	2003
	£	£
Roger Brooke Chairman	12,500	12,500
Sir David Cooksey	–	–
Philip Stephens	10,000	10,000
Sir Peter Williams CBE	10,000	10,000
David Thompson (resigned 1 January 2004)	8,333	10,000

Directors' fees per annum have remained unchanged from the inception of the Company.

Sir David Cooksey has a contingent interest, through Abacus Corporate Trustee Limited as trustee of the Advent Employee Benefit Trust ("the trustee"), in 16.5% of such number of ordinary shares in the Company as may ultimately be allotted to the trustee upon exercise of the option held by the trustee under the terms of the option agreement with the Company dated 6 February 1998 representing the performance-related incentive. Further details of the performance-related incentive are set out in Note 19.


None of the Directors receive bonus payments or pension contributions from the Company. None of the directors hold options to acquire shares in the Company with the exception of Sir David Cooksey who has a contingent interest as detailed in the paragraph above. Directors are not paid for loss of office. No other payments are made to Directors, other than the reimbursement of reasonable out-of-pocket expenses incurred in connection with attending the Company's business.

None of the directors has a contract of service with the Company and no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business with the exception of Sir David Cooksey, who has a material interest in Advent Venture Partners LLP, the parent Company of Advent Fund Managers Limited.

Directors are appointed subject to re-election and to Companies Act provisions relating to the removal of a director, and re-appointment is not automatic. All directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.

As stated in the Articles of Association, the remuneration of directors by way of fees is determined by the Board, save that, unless otherwise approved by ordinary resolution of the Company, the aggregate remuneration shall not exceed £70,000 per annum. With the exception of Sir David Cooksey, all directors constitute the Remuneration Committee, which is responsible for reviewing the remuneration of the directors.

By order of the Board


ADVENT 2 FUND MANAGERS LIMITED
Secretary
8 April 2004

Corporate Governance

The directors of Advent 2 VCT plc confirm that the Company has taken appropriate steps to comply with the Principles of Good Governance and Code of Best Practice (the "Combined Code"), published by the Committee on Corporate Governance in June 1998. The Board considers that the Company has complied with the provisions contained in Section I of the Combined Code throughout the accounting period ended 29 February 2004 except where noted with respect to the appointment of a senior independent director.

The Board

The Company has a Board of four directors, all of whom apart from Sir David Cooksey are independent of the Manager. In these circumstances, the Board does not believe that it is necessary to identify a senior independent director other than the Chairman. The Board is responsible to shareholders for the proper management of the company.

The Board meets on a quarterly basis and, between these meetings, there is regular contact with the Manager which provides the Board with appropriate and timely management information. The Board has adopted a schedule of matters that are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. All directors have access to the advice and company secretarial services provided by the Secretary, which is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The directors also have access, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

Directors are appointed subject to re-election and to Companies Act provisions relating to the removal of a director; and re-appointment is not automatic.

All directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. Biographical details of the directors submitted for re-election are included on page 7 of the annual report.

Board committees

The Board has appointed three standing committees to make recommendations to the Board in specific areas. Each of these committees includes all the directors other than Sir David Cooksey.

The Audit Committee, which meets twice a year, is responsible for reviewing the half-year and annual accounts before their submission to the Board, meeting with the Company's auditors and for monitoring the effectiveness of the Company's internal control systems; the Remuneration Committee is responsible for reviewing the remuneration of the directors and the Nomination Committee is responsible, when necessary, for proposing candidates for appointment to the Board.

Internal control

The Combined Code requires the directors to review the effectiveness of the Company's system of internal control including financial and non-financial controls.

The Board has made a full review of all aspects covered by the guidance and believes that the Company's existing internal control framework meets all of the requirements of the Combined Code.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that it has been in place for the year under review and to the date of the Annual Report. The process is regularly reviewed by the Board and is in accordance with the guidance.

Internal financial control

The directors of Advent 2 VCT plc have overall responsibility for the Company's system of internal financial controls. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

Corporate Governance

Continued

Under the management agreement, the Board has delegated management of the Company to Advent Fund Managers Limited, which has established its own system of internal controls, including internal financial controls, to enable it to ensure that proper accounting records are maintained, that the financial information for use within the business and for reporting to shareholders is accurate and reliable, and that the Company's assets are safeguarded. Advent Fund Managers Limited, which is regulated by the FSA, is responsible for the physical custody of documents of title relating to unquoted investments.

The Company has a separate agreement with Cazenove Fund Management Limited which has direct responsibility to the Board for any fixed interest securities held by the Company.

The Audit Committee has carried out a review of the effectiveness of the system of internal financial controls as it operated during the period and reported its conclusions to the Board, which was satisfied with the outcome of the review.

Relations with shareholders

Communications with shareholders are given high priority. The Chairman's Statement and the Manager's Review on pages 2 to 5 include a detailed review of the business and future developments.

The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. At the Annual General Meeting, representatives of the Manager give a presentation reviewing the Company's activities and are available to answer shareholders' questions.

Going concern

After due consideration, the directors believe that it is appropriate to apply the going concern basis in preparing the accounts. The directors have a reasonable expectation that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future.

Statement of Directors' Responsibilities

in respect of the Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the Shareholders of Advent 2 VCT plc

We have audited the Company's financial statements for the year ended 29 February 2004, which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Objective, Highlights and Venture Capital Trust Status, Chairman's Statement, Manager's Review, Investment Portfolio Summary, Board of Directors, Directors' Report, un-audited part of the Directors' Remuneration Report and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent Auditors' Report

Continued

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company as at 29 February 2004 and of the loss for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

ERNST & YOUNG LLP
Registered Auditor
London
8 April 2004

Profit and Loss Account

for the year ended 29 February 2004

		2004	2003
	Notes	£'000	£'000
Investment income and deposit interest	3	137	413
Investment management fees	4	(309)	(423)
Other expenses	5	(247)	(218)
Operating loss		(419)	(228)
Loss on realisation of investments		(5,636)	(5,184)
Loss on ordinary activities before taxation		(6,055)	(5,412)
Tax on ordinary activities	7	-	-
Loss on ordinary activities after taxation		(6,055)	(5,412)
Dividends		-	-
Balance transferred from reserves	16	(6,055)	(5,412)
Earnings per share	8	(16.9)p	(15.1)p

Statement of Total Recognised Gains and Losses

		2004	2003
		£'000	£'000
Loss for the year		(6,055)	(5,412)
Unrealised profit/(loss) on revaluation of investments	16	3,643	(6,521)
Total recognised loss relating to the year		(2,412)	(11,933)

All items in the above statement are derived from continuing operations, no operations were acquired or discontinued during the year.

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

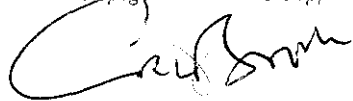
The notes on pages 19 to 29 form part of these accounts.

Balance Sheet

at 29 February 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investments	9	16,438	17,999
Current assets			
Debtors	13	438	516
Money market and other deposits		–	2
Cash		350	190
		<u>788</u>	<u>708</u>
Creditors: amounts falling due within one year	14	(1,337)	(406)
Net current (liabilities)/assets		(549)	302
Total assets less current liabilities		<u>15,889</u>	<u>18,301</u>
Capital and reserves			
Called-up share capital	15	1,793	1,793
Share premium account	16	23,581	23,581
Capital redemption reserve	16	9	9
Revaluation reserve	16	(6,065)	(9,708)
Profit and loss account	16	(3,429)	2,626
Equity shareholders' funds	17	<u>15,889</u>	<u>18,301</u>
Net asset value per ordinary share	18	<u>44.3p</u>	<u>51.0p</u>

The accounts on pages 16 to 29 were approved by the Board of directors on **8 April 2004** and were signed on its behalf by:

X 
ROGER BROOKE
Director

The notes on pages 19 to 29 form part of these accounts.

Cash Flow Statement

for the year ended 29 February 2004

	Notes	2004 £'000	2003 £'000
Cash flow from operating activities and returns on investment:			
Investment income received		53	372
Deposit and similar interest received		1	46
Investment management fees paid		-	(123)
Secretarial fees paid		-	(66)
Other cash payments		(78)	(91)
Net cash outflow from operating activities and returns on investment	20	(24)	(162)
Taxation		-	5
Financial investment:			
Purchase of unquoted investments and investments quoted on AIM		(1,079)	(2,552)
Net proceeds on sale of unquoted investments		25	612
Net proceeds on sale of quoted investments		622	-
Redemption and sale of listed fixed income investments		-	1,061
Net cash outflow from financial investment		(432)	(879)
Equity dividends paid:			
Dividends paid on ordinary shares		-	-
Net cash outflow from payment of equity dividends		-	-
Net cash outflow before financing and liquid resource management		(456)	(1,036)
Management of liquid resources:			
Movement in money market and other deposits		2	236
Financing:			
Short term borrowing		614	-
Issue of ordinary shares		-	926
Expenses on share issue		-	(43)
Repurchase and cancellation of ordinary shares		-	(87)
Net cash inflow from financing		614	796
Increase/(decrease) in cash	21	160	(4)

In the year ended 28 February 2003, the Company held gilts and bonds primarily as investments, and not as readily disposable stores of value. Accordingly movements in the holdings of these instruments were shown within "Financial investment" rather than within "Management of liquid resources".

The notes on pages 19 to 29 form part of these accounts.

Notes

to the accounts

① Objectives and strategies in relation to financial instruments

The overall objective of the Company is to provide its shareholders with an attractive return from the income and capital gains generated by a portfolio of investments mainly in established unquoted companies in the United Kingdom.

The Company's investment policy is that at least 80% of its net assets will be invested in companies which are unquoted or whose shares are quoted on the Alternative Investment Market ("AIM"). Subject to working capital requirements, the balance of the net assets will remain invested in gilts and other sterling-denominated fixed interest investments with the aim of achieving an income yield coupled with capital security.

Investment in unquoted companies can offer good investment returns but by its nature is uncertain and consequently involves a higher degree of risk than a quoted portfolio. Although the Company expects to receive conventional venture capital rights and board representation in connection with its investments, as a minority investor it will not control the board of directors of investee companies and may not always be in a position to protect fully its interests. Realisation of investments in unquoted companies can sometimes be difficult and take a considerable time. There may be constraints imposed on the realisation of the investments by reason of the need to maintain the tax status of the Company.

The Company's investments are spread across industry sectors to produce a diversified portfolio and manage risk.

The net assets of the Company have been financed entirely through the issue of ordinary shares and the Company is not subject to the risks associated with the issue of other kinds of financial instruments.

② Accounting policies

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

a) Basis of accounting

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of fixed asset investments.

b) Income

Dividends receivable on equity shares are brought into account, in the case of quoted shares, on the ex-dividend date and, in the case of unquoted shares, when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received.

Fixed returns on listed debt securities and non-equity shares are recognised on a time-apportionment basis (including amortisation of any premium or discount to redemption) so as to reflect the effective yield; in the case of unlisted debt securities and non-equity shares returns are recognised on a similar basis provided there is no reasonable doubt that payment will be received in due course.

Interest receivable from cash and short-term deposits is accrued to the end of the year.

c) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the profit and loss account, with the exception of expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate.

d) Valuation of investments

Listed investments in fixed income securities are valued at closing middle market prices at the balance sheet date. Quoted investments in equities are valued at bid prices, less a discount to reflect liquidity and size of holding.

② Accounting policies (continued)

Unquoted investments are valued by the directors in accordance with the following rules, which are consistent with the principles set out in the Guidelines for the Valuation and Disclosure of Venture Capital Portfolios issued by the British Venture Capital Association:

i) Quoted investments

Quoted investments are valued at closing bid prices at the balance sheet date less a marketability discount to reflect liquidity and size of holding.

ii) Unquoted development stage investments

Development stage investments are generally valued at cost for at least one year from the date of the investment, unless a provision is necessary because the performance of the investment is significantly below the expectations on which the investment was based, leading to a potentially permanent impairment in value.

Where a material transaction involving an independent third party at arm's length takes place, the valuation will normally be based on the transaction price and will take precedence over other methods of valuation until the circumstances change. Where the transaction involves only a corporate investor, particular care is given to the motives of the investor in determining the appropriate valuation policy. If the transaction is deemed to be at arms length, then the valuation will be based on the transaction price.

In the absence of a valuation based on a material third-party transaction, development stage investments in respect of which at least a year has elapsed since the investment was made are normally valued on an earnings basis, by the application of an appropriate discounted price/earnings multiple to the fully-taxed earnings of the investee company.

iii) Early stage investments

Early stage investments are valued at cost unless a significant transaction involving an independent third party at arm's length values the investment at a materially different value, in which case the valuation is based on the transaction price, or unless a provision is necessary because the performance of the investment is significantly below the expectations on which the investment was based, leading to a potentially permanent impairment in value.

Realised surpluses or deficits on the disposal of investments and impairments in the value of investments are taken to the profit and loss account and unrealised surpluses and deficits on the revaluation of investments are taken to revaluation reserve.

e) Deferred Taxation

Provision is made for corporation tax at the current rates on the excess of taxable income over allowable expenses. In accordance with FRS19 "Deferred Tax", a provision is made on all material timing differences arising from the different treatment of items for accounting and tax purposes.

A deferred tax asset is recognised only to the extent that there will be taxable profits in the future against which the asset can be offset. It is considered too uncertain that this will occur and, therefore, no deferred tax asset has been recognised.

③ Income

	2004 £'000	2003 £'000
Income from investments:		
Unfranked investment income		
-- interest on investments listed on a recognised investment exchange	-	23
-- other	136	383
Other income:		
Deposit interest	1	7
	<u>137</u>	<u>413</u>

④ Investment management fees

	2004	2003
	£'000	£'000
Investment management fees (including VAT)		
Advent Limited (to 30 November 2002)	–	335
- Advent Fund Managers Limited (from 1 December 2002)	309	88
	309	423

Advent Fund Managers Limited provide investment management services to the Company under an agreement dated 1 December 2002. This agreement may be terminated by either party giving to the other not less than three months prior notice in writing. Advent Fund Managers Limited receives separate fees for the separate supplies of arrangement services and management services (as defined in the agreement).

Advent 2 Fund Managers took over as Secretary from Advent Limited on 1 May 2003. The terms of the service agreement remain unchanged. The Secretary receives annual secretarial fees for the services provided, which were waived for the year ended 29 February 2004 (2003: £56,200). The annual secretarial fee (which is payable together with any applicable VAT) is adjusted annually in line with the UK Retail Prices Index and is payable monthly in arrears.

If the annual expenses of the Company exceed 3.5% of the Company's total assets less current liabilities, the Company is entitled to reduce the fees paid to the Manager by the amount of the excess.

⑤ Other expenses

	2004	2003
	£'000	£'000
Secretarial services including VAT (Note 4)	–	66
Directors' remuneration including employer's National Insurance contributions	43	45
Auditors' remuneration including VAT		
-- audit services	24	24
-- non-audit services	–	1
Other	180	82
	247	218

⑥ Directors' remuneration

	2004	2003
	£'000	£'000
Fees paid to directors	41	43

The remuneration of the chairman, Mr Roger Brooke, who was the highest paid director, was £12,500 (2003: £12,500). The remuneration of each of Mr Philip Stephens and Sir Peter Williams CBE was £10,000 (2002: £10,000). Mr David Thompson resigned from the Board with effect from 1 January 2004. His remuneration for the period was £8,333 (2003: £10,000).

Sir David Cooksey waived his entitlement to directors' fees from the Company.

⑦ Tax on ordinary activities

	2004 £'000	2003 £'000
a) Analysis of charge in the year:		
Corporation tax	-	-
Total tax for the year	<u>-</u>	<u>-</u>
b) Factors affecting current tax charge for the year:		
The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a venture capital fund (30%).		
The differences are explained below:		
	2004 £'000	2003 £'000
Net income before taxation	<u>(6,055)</u>	<u>(5,412)</u>
Corporation tax at 30%	<u>(1,817)</u>	<u>(1,624)</u>
Effects of:		
Non taxable income	(10)	(1)
Realised losses not deductible	1,698	1,556
Realised gains not taxable	(7)	-
Expenses not deductible for taxation purposes	12	-
Excess expenses for which no relief is taken	<u>124</u>	<u>69</u>
Current tax charge for the period	<u>-</u>	<u>-</u>

- c) There is an unrecognised deferred tax asset of £383,000 (2003: £260,000). The deferred tax asset relates to the current and prior year unutilised expenses. It is considered too uncertain that there will be taxable profits in the future against which the deferred tax assets can be offset and, therefore, in accordance with FRS19, the asset has not been recognised.

⑧ Earnings per ordinary share

The earnings per ordinary share is based on the loss from ordinary activities after taxation of £6,055,000 (2003: £5,412,000) and on 35,862,753 (2003: 35,862,753) ordinary shares being the average number of ordinary shares in issue during the year.

⑨ Investments

	2004 £'000	2003 £'000
Quoted investments at market valuation:		
Equity – quoted AIM	182	128
Equity – quoted on the London Stock Exchange	-	146
Equity – quoted on the Deutsche Bourse	-	59
Unquoted investments at directors' valuation:		
Unquoted investments	<u>16,256</u>	<u>17,666</u>
	<u>16,438</u>	<u>17,999</u>

⑨ Investments (continued)

Movements in investments during the year:

	Quoted equity* £'000	Unquoted £'000	Total £'000
Book cost as at 1 March 2003	1,669	26,038	27,707
Unrealised depreciation	(1,336)	(8,372)	(9,708)
Valuation at 1 March 2003	333	17,666	17,999
Movements in the year:			
Purchases at cost		1,079	1,079
Disposal proceeds	(622)	(25)	(647)
realised losses	(572)	(5,064)	(5,636)
Unrealised depreciation	1,043	2,600	3,643
Valuation at 29 February 2004	<u>182</u>	<u>16,256</u>	<u>16,438</u>
Book cost at 29 February 2004	475	22,028	22,503
Unrealised depreciation	(293)	(5,772)	(6,065)
Valuation at 29 February 2004	<u>182</u>	<u>16,256</u>	<u>16,438</u>

* investments quoted on the London Stock Exchange, AIM and on the Deutsche Bourse.

⑩ Quoted equity investments

Details of material investment in a quoted company:

Investment (Latest accounts year end)	Total cost 2004 £'000	Carrying value 2004 £'000	Carrying value 2003 £'000	Profit/(loss) before tax for year £'000	Profit/(loss) after tax for year £'000	Retained profits/ (losses) £'000	Aggregate capital and reserves £'000
Oasis Healthcare plc							
ordinary shares (31.03.03)	475	182	128	£(2,268)	£(1,582)	£(3,039)	£15,139

⑪ Unquoted investments

Details of the top 10 investments by valuation are as follows:

Investment (Latest accounts year end period end)	Total cost 2004 £'000	Carrying value 2004 £'000	Carrying value 2003 £'000	Profit/(loss) before tax for year £'000	Profit/(loss) after tax for year £'000	Retained profits/ (losses) £'000	Aggregate capital and reserves £'000
Advanced Visual Technology Ltd							
ordinary shares (30.09.02)	1,757	1,318	824	(764)	(649)	(2,524)	153

In the year to September 2003, AVT enjoyed a considerable turnaround, achieving its first ever annual profit and now has 45 customers worldwide for its retail floor space management software. Customers include Tesco, WH Smith, Barclays and HMV in the UK and Office Depot, Staples and KMart in the USA. More salesmen, partners and resellers are being recruited to increase market penetration.

DNA Research Innovations Ltd

'A' ordinary shares	100	100	100				
'B' ordinary shares	900	900	900				
(30.06.03)	1,000	1,000	1,000	(1,538)	(1,399)	(3,321)	2,233

Continuing development of DNA's patented, flexible technology for extracting DNA from a wide variety of samples is generating a pipeline of new products. The first product, a range of magnetic beads, is now being marketed and sold by a small sales force. Full commercialisation is expected to be achieved through marketing/distribution agreements and partnerships with major companies and a number of such discussions are progressing.

EnSeal Systems Ltd

'A' ordinary shares	350	350	350				
Loan	511	511	261				
(31.12.02)	861	861	861	(390)	(390)	(390)	(40)

EnSeal's seal encoding technology for detecting check and document fraud has recently been adopted by the US Federal Reserve Bank, as well as by J P Morgan Chase, Fiserv (a major US banking services provider) and an affiliate of Bank of America. Several major US banks are keen to adopt the technology which would then be sold as a service to their corporate customers.

Eqos Systems Ltd

ordinary shares	106	106	106				
'A' ordinary shares	567	567	567				
Loan	377	377	377				
(30.09.03)	1,050	1,050	1,050	(564)	(406)	(9,468)	(3,923)

Eqos develops and markets e-collaboration and CRM (customer relationship management) software for business to business transactions, principally sold to major retailers for managing their supply chains. Sales depend on obtaining significant new and repeat orders from major retailers both in the UK and USA.

Footfall Ltd

ordinary shares	131	92	92				
'A' ordinary shares	954	953	953				
'B' ordinary shares	225	225	225				
(31.03.03)	1,310	1,270	1,270	(1,742)	(1,488)	(7,033)	2,450

Footfall is a key index for UK retail performance and is used by the Bank of England Monitoring Policy Committee. The company is the UK's leading provider of automated counting systems in retail environments and provides managed services to rapidly process and publish individual client data and a national index. A strong growth in sales during 2003 included prestigious projects such as the Bull Ring in Birmingham. Footfall is profitable and continues to forecast strong growth based on penetration of the UK and European retail environments.

① Unquoted investments (continued)

Investment (Latest accounts year end)	Total cost 2004 £'000	Carrying value 2004 £'000	Carrying value 2003 £'000	Profit/(loss) before tax for year £'000	Profit/(loss) after tax for year £'000	Retained profits/ (losses) £'000	Aggregate capital and reserves £'000
--	--------------------------------	------------------------------------	------------------------------------	--	---	---	---

Healthgain Solutions Ltd

'A' ordinary shares	100	100	100				
preference shares (30.04.03)	900	900	900				
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	(146)	(146)	(1,517)	(495)

Healthgain continues to deliver good revenue growth in a tough market for healthcare contract sales teams. Growth has been achieved on the back of the company's reputation for delivering high quality teams for specialist applications. The company remains highly regarded for its specialist NHS knowledge, and has a growing blue-chip customer base.

Inca Digital Printers Ltd

'A' ordinary shares	651	2,229	2,229				
preference shares (30.04.03)	105	105	105				
	<u>756</u>	<u>2,334</u>	<u>2,334</u>	322	322	(3,628)	1,978

Reflecting growing confidence in industry in 2003, orders for Inca's large flat bed ink jet printing machines, Eagle and the even larger Columbia, capable of printing hoarding sized materials, have grown appreciably from customers in the UK, USA and China which is now being reflected in improved profitability.

Reqio Ltd

'B' ordinary shares	–	–	515				
'C' ordinary shares	–	–	23				
ordinary shares	1,660	830	–				
unsecured loan stock	–	–	212				
preference shares (30.09.03)	–	–	422				
	<u>1,660</u>	<u>830</u>	<u>1,172</u>	(2,378)	(2,234)	(7,724)	722

Reqio continues to secure contracts for its software in the emerging market for catalogue solutions. Recent contract wins include Asite (a services provider to purchasing organisations) and Kern Edwards (a UK component distributor). Reqio's software is robust and highly configurable, but market demand remains weak in the short-term, with many of Reqio's UK competitors having failed. With a reliable and proven software solution, the company is focused on its sales and marketing effort.

The Casella Group Ltd

ordinary shares	840	840	257				
redeemable preference shares	–	–	583				
convertible loan	250	250	–				
deep discounted bonds	257	257	–				
'A' loan (30.06.03)	250	250	–				
	<u>1,597</u>	<u>1,597</u>	<u>840</u>	(5,465)	(5,487)	(14,144)	7,211

Following changes in management in late 2002, this leading environmental consultancy, services and instrumentation group has been refinanced and has improved from significant losses to significant positive EBITDA (earnings before interest, tax, depreciation and amortisation) and is now looking to resume growth. Casella's subsidiaries, Stanger, Winton and Hazmat are considered major brands within their respective niches of the environmental market.

VectorCommand Ltd

'A' ordinary shares (31.12.02)	1,469	1,101	735	(694)	(654)	(3,455)	816
-----------------------------------	-------	-------	-----	-------	-------	---------	-----

Vectorcommand is a globally recognised authority on incident command and continues to secure orders for its core Fire Simulation and Training suites. 36 UK Fire Brigades and 8 Australian Fire Authorities have deployed the system, and other users are based in Europe, the USA, Canada and the West Indies. The company has over 20 fire scenarios and in partnership with western government agencies is expanding its product portfolio with the introduction of multi-agency Emergency Management tools.

The following provisions were made during the year:

	Cost 2004 £'000	Carrying value 2004 £'000	Provision 2004 £'000	Provision 2003 £'000
PrismTech Ltd ¹	1,486	743	743	–
Radiant Networks plc ^{2&3}	1,455	–	541	914
Reqio Ltd ¹	1,660	830	440	390
	<u>4,601</u>	<u>1,573</u>	<u>1,724</u>	<u>1,304</u>

¹50% provision on cost

²100% provision on cost

³provision for 2003 reflects the difference between cost and valuation based on third party transaction pricing

⑫ Significant interests

At 29 February 2004 the Company held an interest of 3% or more of the nominal value of the allotted shares of any class of the undertakings of which the particulars are stated below (all companies registered in England and Wales and operating in Great Britain):

Name	Principal activity	Description of shares held	Percentage held	Percentage of current equity held
Adeptria Ltd	Interactive content-based alert services	ordinary shares	12.2%	2.4%
Advanced Visual Technology Ltd	Retail space planning software	ordinary shares	34.6%	34.6%
DNA Research Innovations Ltd	Technology for extracting and purifying DNA	'A' ordinary shares 'B' ordinary shares	4.2% 31.0%	9.8%
Elam-T Ltd	Light-emitting organic materials	ordinary shares	8.0%	7.1%
EnSeal Systems Ltd	Seal encoding software	'A' ordinary shares ordinary shares	100.0% 87.3%	87.5%
Eqos Systems Ltd	E-collaboration software based on advanced Internet technologies	'A' ordinary shares	5.9%	2.0%
Footfall Ltd	Counting systems for retail environments	'A' ordinary shares 'B' ordinary shares"	13.7% 9.3%	9.1%
Healthgain Solutions Ltd	Pharmaceutical contract sales consultancy	ordinary shares preference shares	66.7% 100.0%	40.0%
Inca Digital Printers Ltd	Manufacture of ink-jet printers	'A' ordinary shares redeemable pref. shares	19.2% 21.0%	8.3%
IPV Ltd	Digital desk-top video editing	ordinary shares 'A' ordinary shares	10.8% 15.4%	12.7%
Nomad Software Ltd	Retail payments software for the banking sector	ordinary shares preference shares	7.1% 11.3%	8.7%
PrismTech Ltd	CORBA based software tools	ordinary shares 'D' ordinary shares	10.6% 19.1%	8.7%
Reqio Ltd	Cataloguing software for e-commerce	ordinary shares	12.2%	12.2%
The Casella Group Ltd	Environmental products & services	ordinary shares	7.5%	7.5%
VectorCommand Ltd	Fire simulation software design	'A' ordinary shares	36.1%	34.4%

The results of these companies have not been incorporated into the profit and loss account.

Unless stated to the contrary, all classes of ordinary shares and none of the classes of preference shares have voting rights.

The principal activity of the Company is to select and hold a portfolio of investments. As such, the companies are not treated as associates.

⑬ Debtors

	2004 £'000	2003 £'000
Prepayments and accrued income	250	216
Rebate from Manager (inclusive of VAT)	188	300
	<u>438</u>	<u>516</u>

⑭ Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Short term borrowing	614	--
Short term loan from the Manager	363	--
Management fees owed to the Manager	320	380
Accruals	40	26
	<u>1,337</u>	<u>406</u>

⑮ Called-up share capital

	2004 £'000	2003 £'000
Authorised: 45,000,000 ordinary shares of 5p each	<u>2,250</u>	<u>2,250</u>
Allotted, called up and fully paid: 35,862,753 (2003: 35,862,753) ordinary shares of 5p each	<u>1,793</u>	<u>1,793</u>

⑯ Movement in reserves

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
As at 1 March 2003	23,581	9	(9,708)	2,626
Net increase in the value of investments	--	--	3,643	--
Retained loss for the year	--	--	--	(6,055)
As at 29 February 2004	<u>23,581</u>	<u>9</u>	<u>(6,065)</u>	<u>(3,429)</u>

17 Reconciliation of movement in shareholders' funds

	2004	2003
	£'000	£'000
Opening shareholders' funds	18,301	29,438
Issue of ordinary shares	-	883
Total recognised gains and losses for year	(2,412)	(11,933)
Repurchase and cancellation of shares	-	(87)
Closing shareholders' funds	15,889	18,301

18 Net asset value per ordinary share

Net asset value per ordinary share is based on net assets at the year end, and on 35,862,753 (2003: 35,862,753) ordinary shares, being the number of ordinary shares in issue at that date.

19 Performance-related incentive

A performance-related incentive is held by Advent Investments Limited, a subsidiary of Advent Limited (a company of which Sir David Cooksey, a director of the Company, and the other directors of Advent Limited are the directors and principal share holders), Abacus Corporate Trustee Limited of La Motte Chambers, La Motte Street, St Helier, Jersey JE1 1BJ as trustee of the Advent Employee Benefit Trust, a Jersey-based trust established for the benefit of directors and employees of Advent (collectively "the Optionholders"), pursuant to an option agreement dated 6 February 1998. If by the date of payment of the final dividend in respect of the Company's accounting year ending 28 February 2005 cumulative dividend payments (including any related tax credits) on each ordinary share of the Company are not less than 80 pence, the Optionholders will be entitled to subscribe at par for such number of additional ordinary shares as shall in aggregate be equal to 15% of the ordinary share capital of the Company as enlarged by such subscription.

If cumulative dividend payments of 80p per ordinary share are not achieved by the date of payment of the final dividend in respect of the Company's accounting year ending 28 February 2005 but are achieved by a later date the proportion of the enlarged ordinary share capital of the company that may be acquired by the Optionholders on exercise of the option will be scaled down as follows:

Cumulative dividend payments of 80p achieved by the date of payment of the final dividend in respect of the Company's accounting year ending:	Proportion of enlarged share capital that may be acquired
28 February 2006	13.5%
28 February 2007	12.0%
29 February 2008	10.5%
28 February 2009	9.0%
28 February 2010	7.5%

The option will lapse on the date of payment of the final dividend in respect of the Company's accounting year ending 28 February 2010 unless exercised prior to that date. Ordinary shares acquired on exercise will rank for all dividends declared after the date on which the cumulative dividend target is achieved. The option may not be exercised if the return to a private investor in the ordinary shares, taking into account income tax relief, dividend payments and the attributable net asset value per ordinary share (as diluted by the exercise of the option) is less than a return equivalent to interest at LIBOR, on a notional loan of an amount equal to the subscription price of the ordinary shares which is repaid following the exercise of the option.

At 29 February 2004 cumulative dividends paid and proposed (including the related tax credits where applicable) amounted to 21.8p per ordinary share.

② Cash flow from operating activities and returns on investment

	2004	2003
	£'000	£'000
Operating loss	(419)	(228)
Increase in creditors	317	251
Decrease/(increase) in debtors	78	(190)
Amortisation of bonds	-	5
	(24)	(162)

③ Change in cash

	2004	2003
	£'000	£'000
Opening cash	190	194
Net cash inflow/(outflow) for the year	160	(4)
Closing cash	350	190

There were no capital commitments or contingent liabilities at the balance sheet dates.

Notice

of Annual General Meeting

Notice is hereby given that the sixth Annual General Meeting of Advent 2 VCT plc will be held following the Extraordinary General Meeting on Monday, 26 July 2004 at 12pm at the Riverside Room, Institute of Electrical Engineers, Savoy Place, London WC2R 0BL for the following purposes:

Ordinary Business

1. To receive the Report and Accounts for the year ended 29 February 2004.
2. To receive the Directors' Remuneration Report.
3. To re-elect Sir David Cooksey as a Director.
4. To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following as an Ordinary Resolution (as explained in the Directors' Report):

5. That the Directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to a maximum nominal amount of £447,954.95 during the period commencing on the passing of this Resolution and expiring on 26 July 2009 (inclusive of that date) (unless previously revoked, varied or extended by the Company in the General Meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of such offers or agreements, and so that all previous authorities of the Directors pursuant to the said section 80 be and they are hereby revoked (other than the authority granted by the Special resolution to be proposed at the Extraordinary General Meeting of the Company to be held immediately prior to the Annual General Meeting, if such Special resolution is passed).

To consider and, if thought fit, pass the following as Special Resolutions (as explained in the Directors' Report):

6. That subject to the passing of Resolution 5 above the Directors be and are hereby empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act by Resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - (i) 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 the 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 entitlement or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory;
 - (ii) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of £89,656.88 and shall expire on 26 July 2009 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2009, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements.

Notice

of Annual General Meeting (continued)

7. That the Company be and is hereby authorised in accordance with section 166 of the Act to make market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of the ordinary shares of 5p each of the Company provided that:

- (i) the maximum number of ordinary shares hereby authorised to be purchased is 1,793,137; and
- (ii) the minimum price which may be paid for an ordinary share shall be 5p; and
- (iii) the maximum price, exclusive of expenses, which may be paid for an ordinary share shall be an amount which is not more than the net asset value per share and not more than 5% above the average of the mid-market quotations of the ordinary shares as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of purchase; and
- (iv) unless renewed, the authority hereby conferred shall expire on the date falling 15 months after the date of passing of this Resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry date, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

By order of the Board

ADVENT 2 FUND MANAGERS LIMITED

Secretary

25 Buckingham Gate

London SW1E 6LD

8 April 2004

No Director has any contract of service with the Company.

A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, to vote on his or her behalf. A proxy need not also be a member. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so.

A reply-paid form of proxy for your use is enclosed. To be valid it should be completed, signed and sent (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority) to the Company's registrars, Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received not later than 48 hours before the time appointed for holding the meeting, any adjourned meeting, or in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, so as to be received not later than 24 hours before the time appointed for the taking of the poll.

In accordance with the requirements of the Act, the register of directors' interests will be available for inspection at the Annual General Meeting.

Members who hold ordinary shares in the Company in uncertificated form must have been entered on the Company's Register of Members by 12pm on 24 July 2004 in order to be entitled to attend and vote at the meeting. Such members may only vote at the meeting in respect of ordinary shares held at that time.

Notes

Corporate Information

Directors

Christopher Roger Etrick Brooke
Sir David James Scott Cooksey
Philip Henry Peter Stephens
Sir Peter Michael Williams CBE

Manager and Secretary

Advent Fund Managers Limited (Manager)
Advent 2 Fund Managers Limited (Secretary)
25 Buckingham Gate
London SW1E 6LD
Telephone: 020 7932 2100
Fax: 020 7828 4919
E-mail: info@adventventures.com
Website: www.adventventures.com

Registrars

Capita IRG plc
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Telephone: 0870 162 3100

Registered Office

25 Buckingham Gate
London SW1E 6LD
Registered No. 3506579

Stockbroker

Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QL

Manager for gilts and other fixed interest investments

Cazenove Fund Management Limited
12 Moorgate
London EC2R 6DA

Bankers

Barclays Bank PLC
London Customer Service Centre
PO Box 46116
London
EC4N 8WB

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

VCT Status Adviser

PricewaterhouseCoopers
Chartered Accountants
1 Embankment Place
London WC2N 6NN