Baronsmead VCT 2 plc

Investing in Growth Businesses generating tax-free dividends

2007

Summary report
for the eighteen month period
ended 30 September 2007

Managed by ISIS EP LLP

ISIS

Investment Objective

Baronsmead VCT 2 is a tax efficient listed company which aims to achieve long-term capital growth and generate tax-free dividends and capital distributions for private investors.

Investment Policy

- To invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM.
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Further details on the investment policy are contained in the Summary Business Review on pages 20 and 21.

Dividend policy

The Board will aim to sustain annual dividends at an average of 5.5p per ordinary share, whilst also maintaining a net asset value of at least 100p per ordinary share. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Since launch the average annual tax-free dividend paid to ordinary shareholders has been 6.4p per share (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer).

Based on a share price of 101p at the period end, this represents a yield of 6.3 per cent or a gross equivalent yield for higher rate taxpayers of 9.4 per cent.

Secondary market in the shares of Baronsmead VCT 2

Shares can be bought and sold using a stockbroker, just like shares in any other listed company. Qualifying purchasers (individuals over the age of 18 and UK resident for tax purposes) can receive VCT dividends (including capital distributions of realised gains on investments) that are not subject to income tax, and capital gains tax is not payable on disposal of the VCT shares.

There is no minimum time for which VCT shares bought in the secondary market need to be held, and they can be sold in the normal way. The UK tax treatment of VCTs is on a first in first out basis and therefore tax advice should be obtained before shareholders dispose of their shares and also if they deferred Capital Gains Tax in respect of new shares acquired prior to 6 April 2004.

If you have sold or otherwise transferred all of your ordinary shares in Baronsmead VCT 2 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Financial Highlights

For the eighteen months to 30 September 2007

+9.7%

NAV per ordinary share over the eighteen month period increased by 9.7 per cent to 125.69p before deduction of dividends. After payment of dividends totalling 13.5p per ordinary share in the 18 months to 30 September 2007, the NAV was 112.19p. The annualised rate of increase in the NAV was 6.4 per cent.

+95%

Ordinary share price total return over the five years to 30 September 2007, equivalent to an annualised tax free return of 14.3 per cent.

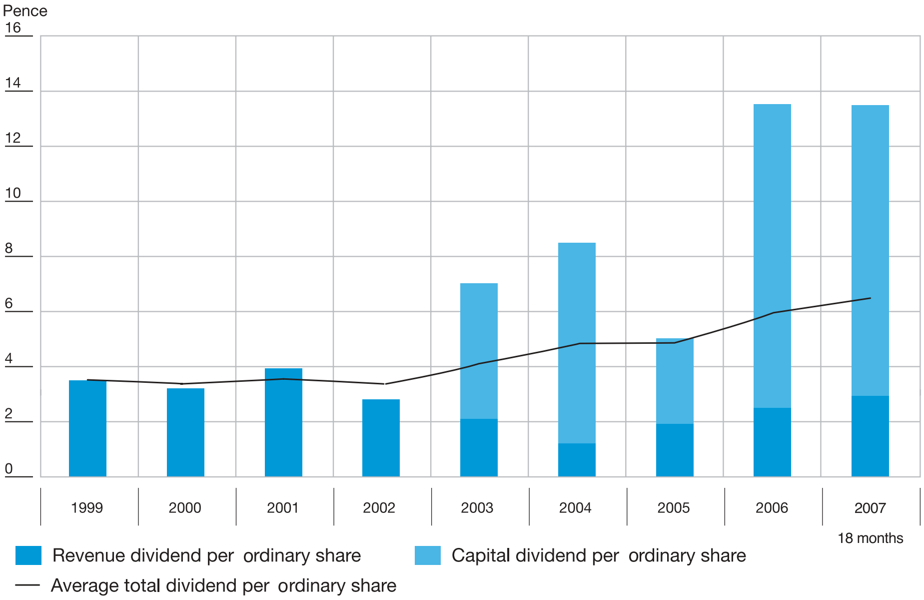
+110%

NAV total return to ordinary shareholders since launch in 1998, equivalent to an annualised total return of 8.1 per cent before 20 per cent income tax relief (on subscription, at launch) and 10.1 per cent afterwards.

6.4p

Average annual tax free dividend is now 6.4p per ordinary share since launch in 1998 (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer).

Dividend history since launch

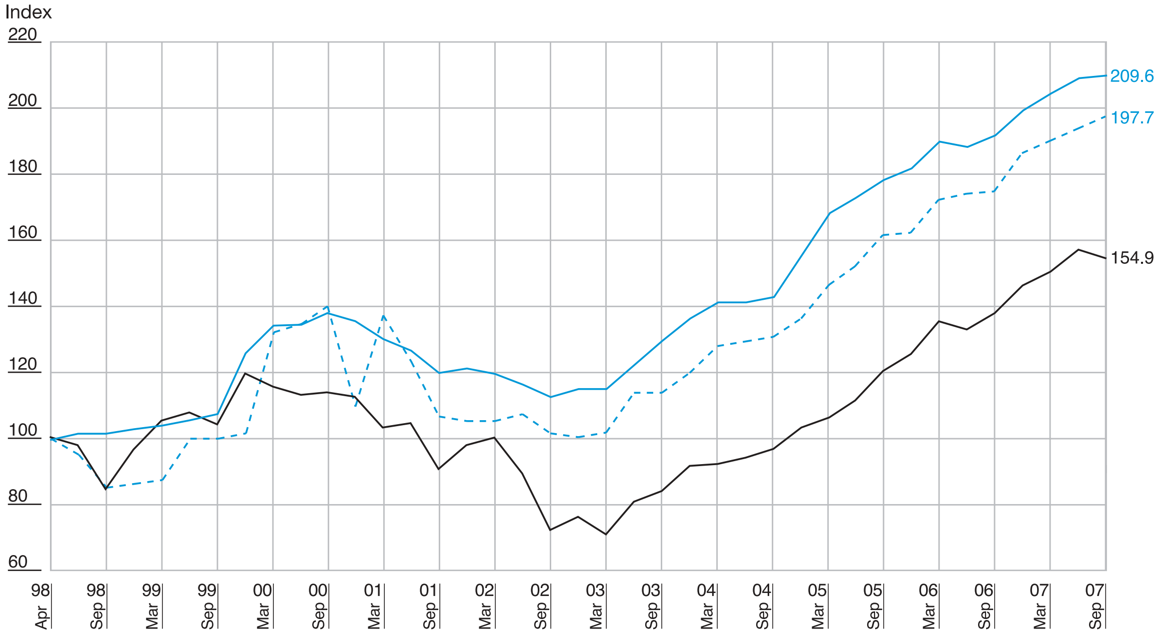


Source: F&C Asset Management plc

Summary Since Launch

Baronsmead VCT 2 plc

Net asset value total return and share price total return since launch against the FTSE All-share Index total return



Source: F&C Asset Management plc

NAV Total Return (gross dividends re-invested) rebased to 100p at launch – ordinary shares
Share Price Total Return rebased to 100p at launch – ordinary shares
FTSE All-Share Total Return rebased to 100p at launch

AIC methodology: The NAV total return to the investor, including the original amount invested (rebased to 100) from launch, assuming that dividends paid were re-invested at NAV of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

Cash returned to shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	100	20.0	80.0	60.9	8.0	11.9
1999 (May) – Ordinary	102	20.4	81.6	57.4	8.3	12.3
2000 (February) – Ordinary	137	27.4	109.6	54.2	6.5	9.6
2000 (March) – Ordinary	130	26.0	104.0	54.2	6.9	10.2
2004 (October) – C	100	40.0	60.0	13.1‡	7.3	10.8

Note 1 – The total returns could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

* Net annual yield represents the cumulative dividends paid expressed as a percentage of the net cash invested.

† The gross equivalent yield had the dividends been subject to higher rate taxation.

‡ Includes 8.5p of dividends paid post conversion, adjusted by the rate at which C shares were converted to ordinary shares (0.9657).

Summary Since Launch

Performance Record

Year ended 31 March	Total net assets £m	Ordinary Share: Net asset value p	Ordinary Share: Share price (mid) p	Ordinary Share: Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
1999	9.5	95.65	85.00	104.44	105.06	2.9
2000	31.0	119.59	125.00	134.62	115.45	3.4
2001	45.0	112.30	125.00	130.66	103.02	3.1
2002	41.2	100.54	92.50	120.15	99.76	2.7
2003	36.7	89.65	80.00	115.49	70.02	2.7
2004	41.1	100.63	90.00	141.80	91.72	2.7
2005	69.6	116.92	100.50	168.70	105.99	2.7
2006	69.6	114.62	100.50	190.51	135.69	2.9
Eighteen month period ended 30 September **2007**	**68.7**	**112.19**	**101.00**	**209.62**	**154.89**	**3.0**

* Source: F&C Asset Management plc based on bid prices.
† As a percentage of average total shareholders' funds (excluding performance fees).

Dividends paid since launch

Year ended 31 March	Revenue dividend per ordinary share p	Capital dividend per ordinary share p	Total dividend per ordinary share p	Cumulative dividends per ordinary share p	Average total annual dividend per ordinary share p
1999	3.50	–	3.50	3.50	3.50
2000	3.20	–	3.20	6.70	3.35
2001	3.90	–	3.90	10.60	3.53
2002	2.80	–	2.80	13.40	3.35
2003	2.10	4.90	7.00	20.40	4.08
2004	1.20	7.30	8.50	28.90	4.82
2005	1.90	3.10	5.00	33.90	4.84
2006	2.50	11.00	13.50	47.40	5.93
Eighteen month period ended 30 September **2007**	**2.80**	**10.70**	**13.50**	**60.90**	**6.41***

* Annualised

Chairman's Statement

Clive Parritt Chairman

The economic climate over the 18 month accounting period has become increasingly volatile. Despite that, the Company has achieved a creditable 9.7 per cent increase in Net Asset Value (NAV) before deduction of dividends. This demonstrates clearly the advantage of good investment diversity which the Board and the Manager strive to achieve. The unquoted investment portfolio progressed well in the period, while the AiM portfolio was marginally down.

The share price total return for the five years to 30 September 2007 is 95 per cent. This is attributable primarily to strong cumulative performance over the period from the investment portfolio.

The consistency and level of dividends (currently equivalent to 9.5p per share per annum for a higher rate tax payer), is beginning to make a real contribution to market demand for the Company's shares and it is helping to underpin the share price. The dividends paid to Ordinary and C shareholders of 13.5p and 9.8p respectively (the latter converted in January 2007) illustrate the income attractions of holding shares in Baronsmead VCT 2.

Results

In the 18 months to 30 September 2007, the Net Asset Value (NAV) per ordinary share increased by 9.7 per cent from 114.62p to 125.69p before deduction of dividends. Three interim ordinary dividends were paid – in December 2006 (5p), March 2007 (5p) and September 2007 (3.5p).

The C share capital raised in winter 2004/05 was converted into ordinary shares on 24 January 2007 with 9,657 new ordinary shares being issued for every 10,000 C shares held.

Long Term Performance

There are two principal ways in which shareholders can assess the long term performance of the Company; either by reference to the NAV plus dividends paid (known as ''NAV total return''); or the movement in share price plus dividends paid (known as ''share price total return''). This latter measure is particularly relevant to investors who buy in the market. Using either measure the Company has performed well.

NAV total return to ordinary shareholders since launch in 1998 amounts to 110 per cent which represents an annual compound growth rate of 8.1 per cent and is stated net of all running costs including any performance fees earned by the Manager. In the period under review, performance fees of £508,000 (including VAT) were paid to the Manager (see Performance Incentive on page 19). These total returns are stated before the inclusion of VCT tax reliefs, which were designed to redress both the VCT constraints and the higher risk that pertains to smaller unquoted and AiM-traded companies. If the original 20 per cent income tax relief on subscription at launch is taken into account the subsequent return is 137.5 per cent and the annual compound growth rate increases to 9.5 per cent.

Share price total return in the last five years has been 95 per cent, which represents an annualised tax-free return of 14.3 per cent.

Dividends and yield. By the period end, tax-free dividends totalling 60.9p had been paid to founder shareholders. This is an annualised tax-free average of 6.4p per share per annum. For the higher rate taxpayer, the gross equivalent represents 9.5p per share per annum. Based on a share price of 101p at the period end, this represents a dividend yield of 6.3 per cent or a gross equivalent yield of 9.4 per cent tax-free for UK private investors. The Board will aim to sustain annual dividends at an average of 5.5p per share but clearly continuance will depend on the level of profitable realisations and it cannot be guaranteed.

The results set out above compare favourably with other VCTs and fuller comparisons have recently been prepared by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk.

The Portfolio

The portfolio increased to 80 investments with 21 new investments made, 10 investments being fully realised and 4 investments being written off during the period. New investments, (excluding further rounds of financing) totalled £11.4 million across 7 new unquoted and 14 AiM-traded investees. The split by value of the portfolio (excluding the interest bearing securities) is approximately 61 per cent unquoted and 39 per cent AiM or listed investments. The largest investments in each category are 3.9 per cent and 2.2 per cent of NAV respectively.

Chairman's Statement

Six VCT tests relating to the running of Baronsmead VCT 2 have to be, and were met for each day of the period to 30 September 2007. The most significant of these tests is the need to ensure that at least 70 per cent of the funds raised are invested in VCT qualifying investments within 3 years. At the period end, approximately 77 per cent of the ordinary capital raised (net of launch costs) prior to 30 September 2005 was invested in qualifying investments.

The 'direction of travel' or relative health of portfolio companies is measured quarterly in terms of profitability as well as other non-financial benchmarks. At the period end 81 per cent of the portfolio companies were reporting higher or steady profits. The analysis of the top ten investments set out on pages 12 and 13 gives more detail about key investments and, additionally, four of these aspiring high-growth companies have been selected to illustrate the role played by the Manager in their progress and how value is added for investees (see summaries on pages 14 and 15).

The Manager's Review gives more detail about the strong performance of the unquoted portfolio as well as the ups and downs from the AiM-traded investees (see pages 7 to 9).

Investment sales totalled £11.5 million realising a net profit of some £6.7 million and delivering a multiple on cost of 2.4 times. These realisations are summarised in the Manager's Review on page 8. Since the period end, Boldon James has been sold to a trade buyer at 3.1 times the original cost of £687,000 realising a profit of £1.1 million.

Making Further Investment in Baronsmead VCT 2

The record of share price total returns and the availability of ISA style tax reliefs illustrate some of the merits for UK private investors of acquiring existing shares in Baronsmead VCT 2. The Manager sent a guide to all shareholders in September 2007 titled 'How to acquire additional shares in the generalist Baronsmead VCTs', which provides more information about how to purchase or subscribe for more shares and how the different VCT tax reliefs apply.

Following revisions to VCT legislation in the Finance Acts 2006 and 2007 the detailed way in which new share capital can be deployed has become clearer and as a consequence the Board is able to increase the financial planning opportunities available to ordinary shareholders by offering them the ability to subscribe for new 'top up' shares.

The Directors have decided to offer for subscription ordinary shares with a total value of up to Euros 2.5 million (approximately equivalent to £1.7 million at 30 September 2007), in accordance with the Prospectus Directive 2005, at the same time as the final statutory and interim reports are sent to all shareholders. Any offer over Euros 2.5 million requires the publication of a full prospectus, the regulatory cost of which makes large top up offers too costly to undertake.

Shareholders are invited to subscribe for new shares in the knowledge that the next time shareholders will be asked to confirm that the Company should continue as a Venture Capital Trust will be in 2013, or if the proposed special resolution to extend the life of the Company is passed at the AGM it will be 2014 (i.e. more than 5 years in the future). Income tax relief of up to 30 per cent can be claimed on the subscription cost and retained as long as shareholders hold these shares for five years or more. If more subscription monies are received than the upper limit of Euros 2.5 million, subscription levels will be scaled back accordingly.

The new Dividend Reinvestment Plan (DRIP) continues to be available. Currently, under this scheme approximately 12 per cent of ordinary shareholders re-invest their dividends by acquiring shares in the market. The scheme acquired a total of 784,014 shares during the period.

The number of third party purchasers of shares in the market has shown an increase during summer 2007 and it is hoped that this will continue. During the period, 1,125,000 ordinary shares were bought back, which was a lower level than in prior periods.

Investment Policy

The Board reviews the investment policy on a regular basis to ensure that it remains appropriate in the prevailing market conditions. Inevitably, over time, there have been minor changes but the basic strategy that has been in place since launch in 1998 (see inside front cover) remains as valid today as it did then. To assist existing and potential shareholders in understanding the investment opportunity which the Company offers and to identify how risk spreading is achieved, the investment policy has been reproduced in full (see pages 20 and 21).

Shareholder Issues

We now have approximately 3,400 ordinary shareholders and our task as a Board is to ensure that we meet and understand your requirements. I look forward to welcoming as many shareholders as possible to the AGM on 10 December 2007. Because of the need to share the London Stock Exchange venue with Baronsmead VCT who have an AGM earlier that day, the programme for shareholders in Baronsmead VCT 2 will start with lunch at 12.30 p.m. followed by a presentation by investee Crew Clothing, a premium brand retailer. This will

Chairman's Statement

be followed by a shareholder workshop prior to the actual AGM being held at 3.30 p.m.

During the new financial year ending 30 September 2008, former C shareholders who subscribed between October 2004 and January 2005 will come to the end of their three year holding period after which their initial 40 per cent income tax reclaim can be permanently retained. We are aware from the 2006 shareholder survey that a small minority have indicated their preference to sell. However, based on this survey and prior experience, we anticipate that the existing shareholder policies regarding the DRIP, tax-free dividend yields and the track record of Baronsmead VCT 2 over more than nine years, should encourage an orderly market of buyers and sellers.

Outlook

The UK economy is currently experiencing higher uncertainty prompted by the credit difficulties on both sides of the Atlantic. While this is expected to impact on the institutional funds available for AiM flotations, we hope it will also lead to greater realism in the pricing of buying opportunities. Unquoted opportunities are less affected by these difficulties but they can dampen unquoted deal flow. To counter this, the Manager has invested in direct origination to help sustain the level of new investment which is so crucial to our success.

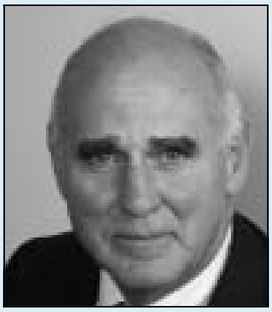
With regard to the existing portfolio there is a good spread of risk and, currently, the unquoted investees are showing strong momentum in their businesses. This resilience is also evident in the trading of many of the AiM investees, but here there is greater susceptibility to lower market pricing for smaller and more illiquid companies. The Manager remains confident about future performance but is taking steps to ensure that the risk profile of investees and new investment opportunities are reviewed with even greater stringency.

Clive Parritt
Chairman

9 November 2007

Manager's Review

The total portfolio grew to 80 companies after 21 new investments, net of 10 realisations and the write off of 4 investments.



David Thorp
Investment Manager

Andrew Garside
Investment Manager

Prem Mohan Raj
Chief Financial Officer, Funds

Rhonda Nicoll
Company Secretary

New Investments in the eighteen month period to 30 September 2007

The new investment (including further rounds of financing) is set out below and totalled £12.7 million including seven sizeable unquoted investments and 14 smaller AiM subscriptions averaging £233,000. Further round financings are included within the total amount invested and were spread over eight other investees.

Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments				
Cablecom Networking	Somerset	IT	Provider of network solutions	1,381
Crew Clothing	London	Consumer	Branded clothing retailer	932
Empire World Trade	Spalding	Consumer	Fruit supplier	1,297
Fisher Outdoor Leisure	St Albans	Consumer	Distribution of cycle accessories	1,423
Independent Living Services*	Alloa	Healthcare	Domiciliary care	177
MLS	Stockport	IT	School library software	780
Occam*	Bath	Business services	Integrated data services	41
Quantix	Nottingham	IT	Database services	1,193
Scriptswitch	Coventry	Healthcare	Prescription software	1,167
Xention Discovery*	Cambridge	Healthcare	Drug discovery	116
Total Unquoted				**8,507**
AiM-traded investments				
Appian Technology*	Bourne End	IT	Recognition software	125
Brainjuicer	London	Media	Market research	50
Brulines Holdings	Stockton-on-Tees	Business services	Pub management systems	290
Business Direct*	Rugby	Business services	Secure remote lockers	139
Claimar Care*	Birmingham	Healthcare	Domiciliary care	219
Concateno	London	Healthcare	Drugs testing	326
Craneware	Livingston	IT	Software consultancy	179
Driver Group*	Rossendale	Business services	Dispute resolution	91
EBTM	Nottingham	Consumer	Online fashion retailer	244
Essentially Group	Jersey	Media	Sports marketing	255
Ffastfill	London	IT	Trading platform software	130
IDOX*	London	IT	Document management software	320
INVU	Northampton	IT	Document management software	35
Kiotech International	Surrey	Healthcare	Animal feed additives	200
Mount Engineering	North Yorkshire	Business services	Industrial engineering	385
Proactis Holdings	York	IT	Procurement software	400
Tangent Communications	London	Business services	Customised direct marketing	180
Tasty	London	Consumer	Restaurant operator	65
Worthington Nicholls	Manchester	Business services	Air conditioning contractors	525
Total AiM-traded				**4,158**
Total Investment in the period				**12,665**

*Further round of financing

Manager's Review

Portfolio performance and realisations

There was strong value growth across the unquoted portfolio, which increased in value by 41 per cent over the 18 month period. Organic growth was particularly evident in Crucible Group (credit management), kidsunlimited (child daycare centres) and Kafévend (hot drinks vending for small companies). ILS (domiciliary care) and SLR (UK and American environmental consultancy) achieved their growth with a combination of acquisitions and favourable existing trading. The recovery at Hawksmere (financial training) was maintained whilst new investments at Fisher (cycle accessories distribution) and EWT (deciduous fruit importers) continued on plan. The investments in SpaForm (portable spa baths), Country Artists (resin collectibles), Medal Entertainment & Media (audio-visual publishing) and Inter Link Foods (cake manufacturer) were written off, while the Art Group (publisher of art content) has been down valued as it failed to meet its business plan.

The main unquoted realisations were reported at the interim stages and demonstrate how private equity disciplines focus on growth and generating value.

Good diversity was achieved in the period under review for AiM investing and so far these new investments have met expectations.

Realisations of £3.8 million representing 1.7 times the original cost from 7 AiM companies reflect the high level of bid activity in winter 2006/07 and the strategic value developed by three of them. The entire shareholding in Worthington Nicholls was sold through the market and this proved to be well timed.

Nevertheless, over the eighteen month period the performance of the AiM portfolio was disappointing and in keeping with the AiM market as a whole, which saw gains made in late 2006 and early 2007 reverse in recent months. Overall, there was a 4 per cent fall in value primarily due to

Realisations in the eighteen month period to 30 September 2007

		First Investment date	Cost £'000	Proceeds £'000	Multiple return
Unquoted investments					
Americana	Trade sale	August 2003	545	1,692	8.0*†
Domantis	Trade sale	April 2004	400	1,484	3.7
Martin Audio	Trade sale	August 2003	968	3,284	3.5*
AiM-traded investments					
neuTec Parma	Market sale	February 2002	78	548	7.0
Debtmatters Group	Market sales	June 2005	53	280	5.3
Worthington Nicholls	Market sale	May 2006	525	1,456	2.8
Talarius	Market sale	May 2005	313	814	2.6
Interactive Prospect Targeting	Market sales	November 2004	114	226	2.0
Cardpoint	Market sales	May 2003	4	7	1.8
Sirius Financial Solutions	Partial sale due to corporate action	July 1998	114	178	1.6
InterQuest Group	Market sales	May 2005	14	23	1.6
Ovum	Trade sale	March 2006	250	395	1.6
Medal Entertainment & Media Group	Market sales	August 2002	72	84	1.2
Blooms of Bressingham	Trade sale	April 2001	320	291	0.9
Polaron	Trade sale	March 2004	296	188	0.6
Scott Tod	Market sale	May 2004	421	152	0.4
Colliers CRE	Rights sale	July 2001	–	67	–
Total			4,487	11,169	
Unquoted investments – Loan note redemptions					
SLR Holdings	Loan note redemption	September 2004	204	204	1.3*
Boldon James	Partial loan note redemption	June 2005	125	125	1.1*
Total			329	329	

* Includes interest received.

† Multiple return includes realisations made in December 2004 and November 2005 accounted for in prior periods.

In addition, deferred proceeds of £73,000 were received on unquoted investments realised in prior periods.

SpaForm was written off at a cost of £1,000,000, Country Artists was written off at a cost of £517,000, Medal Entertainment & Media was written off at a cost of £227,000 and Inter Link Foods was written off at a cost of £264,000.

Manager's Review

Debtmatters and Inter Link Foods having major mark downs due to an adverse change in competitive conditions. In early years, the cost of the original investments in these two companies had been largely recovered by part sales through the market.

Investor Relations

The demand for existing shares from the Dividend Reinvestment Plan is helping to reduce the number of shares bought back by the Company and as a result of this, together with other buyers of the shares in the market, the mid share price discount to NAV is starting to narrow.

In total approximately 480 shareholders currently choose to reinvest their dividends by buying additional shares in Baronsmead VCT 2 plc. Since December 2006, the Dividend Reinvestment Plan has purchased 784,014 existing ordinary shares on behalf of participants. In addition in the past 6 months approximately 128,000 existing ordinary shares have been bought by third parties wishing to benefit from making an investment in Baronsmead VCT 2 plc which helped keep the mid price discount to NAV at approximately 10 per cent throughout the period.

Shareholders passed the resolution concerning electronic communications at the Annual General Meeting held on 18 June 2007. Following notification from the Registrars in August 2007, 1,403 shareholders elected to continue to receive paper copies of the Company's shareholder communications, 391 shareholders wished to receive notification of the availability of the latest reports from the company electronically and 1,617 shareholders did not respond and have been deemed to have given their consent to receive postal notification of the availability of the latest communications online. As a result, the Company will save the printing and postal costs of approximately 2,000 fewer annual and interim reports.

Shareholders can obtain information about their shareholdings and have the ability to change their registered details such as address and bank account details for dividend payments etc by registering with Computershare's Investor Service at the following website: www.computershare.co.uk/investor.

Once registered with the Investor Centre shareholders can also elect to receive electronic communications by ticking the box which selects 'Electronic Shareholder Communications'.

Outlook

In less settled markets, the ability for investee companies to be disconnected from macro influences is important. We have already seen a number of examples where the level of penetration in growth niche markets still enables plans to be delivered despite reduced consumer spending. Regulatory pressures and the need for major enterprises to outsource non-core activities are other drivers of growth in uncertain times.

Investment returns have shown consistency in recent years and so the challenge for ISIS is to sustain this whatever difficulties may be evident on the wider stage. The unquoted and AiM parts of the portfolio are showing good stability so one of the main risks in future relates to the pricing of buying and selling unquoted and AiM equities. This can work both ways and we shall endeavour to exploit such pricing differentials over the next year.

The liquidity of the market for shares in Baronsmead VCT 2 is making some progress and we hope to encourage this by communicating to investors how buying and holding shares in Baronsmead VCT 2 may be beneficial for the longer term.

David Thorp

Investment Manager

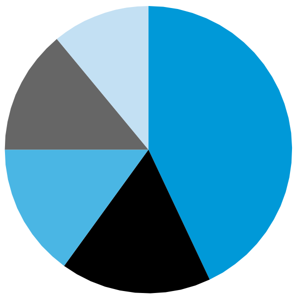
ISIS EP LLP

9 November 2007

Investment Portfolio

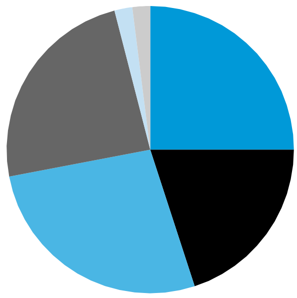
Investment Classification at 30 September 2007

By Sector



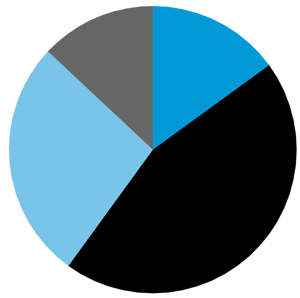
Business services	**43%**
IT support services	**17%**
Consumer	**15%**
Media	**14%**
Healthcare	**11%**

Total Assets



Unquoted – loan stock	**25%**
Unquoted – ordinary and preference shares	**20%**
AiM	**27%**
Interest bearing	**24%**
Net current assets	**2%**
Listed	**2%**

Time Investments Held



Less than 1 year	**15%**
Between 1 and 3 years	**44%**
Between 3 and 5 years	**27%**
Greater than five years	**14%**

Company	Nature of business	Book cost £'000	Valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by other funds*
Unquoted						
RLA Group	Media	1,437	2,661	3.9	18.5	30.5
Fisher Outdoor Leisure	Consumer markets	1,423	2,458	3.6	10.5	33.6
Independent Living Services	Healthcare	801	2,318	3.4	14.4	43.0
Kafévend	Consumer markets	1,247	2,179	3.2	15.4	49.6
Reed & Mackay	Business services	1,211	2,125	3.1	9.5	30.5
Empire World Trade	Business services	1,297	2,118	3.1	7.1	22.9
The Crucible Group	Business services	1,032	1,767	2.6	8.6	26.4
Boldon James	IT	562	1,669	2.4	9.0	29.0
The Art Group	Media	1,576	1,655	2.4	8.6	16.4
Hawksmere	Business services	942	1,591	2.3	15.5	29.5
SLR Holdings	Business services	290	1,503	2.2	2.6	23.1
Cablecom Networking	IT	1,381	1,381	2.0	10.6	30.8
kidsunlimited	Business services	481	1,356	2.0	4.0	45.9
Crew Clothing	Consumer markets	932	1,281	1.8	5.9	19.1
Quantix	IT	1,194	1,194	1.7	11.4	36.6
Scriptswitch	IT	1,167	1,167	1.7	7.2	25.4
MLS	IT	781	769	1.1	5.3	17.2
Green Issues	Media	497	685	1.0	9.5	30.5
Occam	Business services	462	649	0.9	5.9	51.9
Xention Discovery	Healthcare	213	213	0.3	1.0	3.9
Total unquoted		**18,926**	**30,739**	**44.7**		
AiM						
Jelf Group	Business services	551	1,510	2.2	2.5	7.6
Staffline Recruitment Group	Business services	249	1,323	1.9	4.5	4.5
Murgitroyd Group	Business services	319	1,198	1.7	3.2	3.2
Begbies Traynor Group	Business services	283	1,112	1.6	0.9	2.6
Claimar Care Group	Healthcare	569	958	1.4	2.3	9.2
IDOX	IT	920	912	1.3	2.8	4.8
Huveaux	Media	666	751	1.1	1.7	2.7
Driver Group	Business services	438	600	0.9	2.4	8.7
InterQuest Group	Business services	310	591	0.9	1.9	5.6
Adventis Group	Media	281	557	0.8	2.4	6.1
Proactis Holdings	IT	400	530	0.8	3.1	12.3
Concateno	Healthcare	325	528	0.8	0.6	2.7

Investment Portfolio

Company	Nature of business	Book cost £'000	Valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by other funds*
AiM (continued)						
Colliers CRE	Business services	470	503	0.7	0.9	1.8
Quadnetics	Business services	296	386	0.6	0.7	1.6
Sanderson Group	IT	387	379	0.6	1.8	5.3
Vero Software (formerly VI Group)	IT	500	372	0.5	6.2	8.0
Mount Engineering	Business services	385	363	0.5	2.3	10.6
Interactive Prospect Targeting	Media	138	340	0.5	0.5	1.6
Prologic	IT	310	331	0.5	4.1	10.9
Top Ten	Consumer markets	759	327	0.5	2.0	2.0
Brulines Holdings	Business services	290	314	0.5	1.0	4.1
Autoclenz Holdings	Consumer markets	400	310	0.5	3.1	9.2
Stagecoach Theatre Arts	Consumer markets	419	270	0.4	4.6	4.6
WIN	IT	263	252	0.4	1.3	3.6
Essentially Group	Media	255	247	0.4	1.5	8.9
EBTM	Consumer markets	244	232	0.3	2.1	9.8
Appian Technology	IT	250	226	0.3	2.7	8.0
Kiotech International	Business services	200	217	0.3	2.7	10.6
Conder Enviromental	Business services	607	212	0.3	7.4	7.4
Craneware	IT	179	212	0.3	0.6	2.6
Cardpoint	Business services	109	197	0.3	0.2	0.4
Air Music & Media Group	Media	575	189	0.3	1.6	2.8
ATA Group	Business services	355	187	0.3	4.6	4.7
Tangent Communications	Business services	180	177	0.3	0.9	4.0
Debtmatters Group	Consumer markets	167	167	0.2	0.9	2.8
The Real Good Food Company	Consumer markets	620	165	0.2	0.7	1.6
Xpertise Group	Business services	296	164	0.2	2.5	4.3
eg Solutions	IT	375	154	0.2	3.1	11.1
Business Direct Group	Business services	444	144	0.2	2.5	8.3
FfastFill	IT	130	144	0.2	0.5	2.4
Brainjuicer	Media	50	82	0.1	0.4	1.5
Cobra Biomanufacturing	Healthcare	210	75	0.1	1.3	–
Tasty	Consumer markets	65	72	0.1	0.2	1.1
AorTech International	Healthcare	285	70	0.1	0.3	0.3
MKM Group	Business services	284	65	0.1	0.9	2.3
SSP Holdings (formerly Sirius Fin. Sol.)	IT	36	58	0.1	–	–
Universe Group	Business services	195	58	0.1	0.7	1.4
Landround	Business services	467	35	0.1	1.7	1.7
INVU	IT	35	32	0.1	0.1	1.7
Cantono (formerly Hamsard Group)	IT	375	31	–	0.1	0.4
Fishworks	Business services	128	29	–	0.5	1.6
Charterhouse Communications	Media	355	26	–	0.5	0.7
Highams Systems Services	IT	197	15	–	0.7	1.4
Zoo Digital Group	IT	438	15	–	0.3	0.8
Capcon Holdings	Business services	137	10	–	1.7	3.4
Micap	Healthcare	375	9	–	0.5	0.7
Total AiM		**18,546**	**18,433**	**26.8**		
Listed						
Vectura Group	Healthcare	579	869	1.3	0.4	1.0
Ardana	Healthcare	481	303	0.4	0.6	0.8
Oxford BioMedica (formerly Oxxon Phar.)	Healthcare	250	102	0.2	–	–
Total listed		**1,310**	**1,274**	**1.9**		
PLUS						
Chemistry Communications	Business services	500	65	0.1	3.1	3.1
Total PLUS		**500**	**65**	**0.1**		
Interest bearing securities						
UK Treasury 5% 07/03/08		8,360	8,371	12.2		
Money Market OEIC		8,558	8,558	12.4		
Total interest bearing securities		**16,918**	**16,929**	**24.6**		
Total investments		**56,200**	**67,440**	**98.1**		
Net current assets less creditors falling due after 1 year			**1,305**	**1.9**		
Net assets			**68,745**	**100.0**		

A provision of £12,000 has been made against unquoted investments as at 30 September 2007 (31 March 2006 – £2,245,000).

*Other Funds managed by the same Investment Manager, ISIS EP LLP.

Ten Largest Investments

The top ten investments by current value at 30 September 2007 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information, which has been audited by the auditors of the investee companies.

RLA GROUP LIMITED Bournemouth

Integrated marketing communications company

First Investment: December 2002
Cost: £1,437,000
Valuation: £2,661,000
Valuation basis: Recent offer
Percentage of equity held: 18.5%

RLA Group Limited is a regional marketing services agency, predominantly servicing national and multinational brands. £2.4 million was raised in December 2002 to fund a replacement capital deal.

The original investment was in RLA Media Limited. The business RLA Media was transferred entirely into RLA Group Limited on 27 April 2005. Amongst its clients RLA includes the VAG Group.

Year ended 31 May	2007	2006
	£ million	£ million
Sales	12.9	11.2
Profit before tax	1.1	1.2
Retained profit	0.6	0.5
Net assets	4.1	3.1

www.rlagroup.co.uk

FISHER OUTDOOR HOLDINGS LIMITED St. Albans

Supplying the biking industry

First Investment: June 2006
Cost: £1,423,000
Valuation: £2,458,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 10.5%

Fisher Outdoor Holdings Limited has grown to be the strongest name in the supply of cycle accessories and components to the UK cycle trade. £5.6 million was invested to fund the Management buyout in June 2006. Fisher employs 80 staff distributing key branded and own label products.

Year ended 31 January	2007	2006
	£ million	£ million
Sales	18.1	15.4
Profit before tax	2.5	2.0
Retained profit	2.1	1.4
Net assets	7.7	5.3

www.fisheroutdoor.co.uk

INDEPENDENT LIVING SERVICES LIMITED Alloa

Flexible, responsive and accountable domiciliary care

First Investment: September 2005
Cost: £801,000
Valuation: £2,318,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 14.4%

Independent Living Services Limited (ILS) is one of the leading providers of acute domiciliary care to its local authority customers, mainly based in east Scotland.

ISIS first invested in ILS in September 2005 and, in November 2006, supported its first acquisition, giving the enlarged group a strong presence in the west of Scotland.

Year ended 30 September	2006	2005
	£ million	£ million
Sales	6.8	6.3
Profit before tax	0.9	0.7
Retained profit	0.7	0.4
Net assets	2.0	1.2

www.ilsscotland.com

KAFÉVEND GROUP LIMITED Crawley

SME hot drinks vending

First Investment: October 2005
Cost: £1,247,000
Valuation: £2,179,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.4%

Kafévend Group Limited is a leading drinks vending machine service provider to the SME market. £5 million was invested in October 2005 to fund a management buyout.

Kafévend employs over 70 people and operates from six sites across the UK.

Year ended 30 September	2006	2005
	£ million	£ million
Sales	12.1	10.8
Profit before tax	0.3	1.7
Retained profit/(loss)	0.2	(9.9)
Net assets	1.5	1.3

www.kafevend.co.uk

REED & MACKAY LIMITED London

Taking customers around the world

First Investment: November 2005
Cost: £1,211,000
Valuation: £2,125,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 9.5%

Reed & Mackay Limited is a provider of business travel management services to professional services firms and corporates. £5.0 million was raised in November 2005 to fund a replacement capital deal.

Year ended 31 March	2006	2005
	£ million	£ million
Sales	9.4	8.9
Profit before tax	2.6	2.6
Retained profit	2.0	1.6
Net assets	8.2	6.4

www.reedmac.com

EMPIRE WORLD TRADE LIMITED Spalding

Keeping the UK eating an apple a day

First Investment: August 2006
Cost: £1,297,000
Valuation: £2,118,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 7.1%

Empire World Trade Limited imports top-quality deciduous fruit, primarily apples and pears, and has achieved leadership in terms of quality and service. In August 2006, £5.2 million was invested to effect a management buyout. Empire sources and supplies fresh produce to major supermarkets like Tesco and Marks & Spencer.

Year ended 30 April	2006	2005
	£ million	£ million
Sales	83.7	76.2
Profit before tax	2.8	1.8
Retained profit	1.9	1.2
Net assets	2.9	3.3

www.empireworldtrade.com

THE CRUCIBLE GROUP LIMITED Carshalton

Credit management services

First Investment: May 2005
Cost: £1,032,000
Valuation: £1,767,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 8.6%

The Crucible Group Limited is a credit management and debt collection business working on behalf of financial services and other commercial customers. In May 2005 £4 million was raised for a management buy-out.

The Crucible Group collects debts for credit card companies like Barclays, MBNA and Egg as well as utility companies such as Vodafone, Tiscali and NTL.

Year ended 30 September	2006	2005
	£ million	£ million
Sales	8.0	7.3
Profit before tax	0.8	0.8
Retained profit	0.7	0.7
Net assets	2.8	2.1

www.creditsolutions.co.uk

BOLDON JAMES LIMITED Crewe

Secure message handling system

First Investment: June 2005
Cost: £562,000
Valuation: £1,669,000
Valuation Basis: Sale value (sold after period end)
Percentage of equity held: 9.0%

Boldon James Limited is a provider of secure messaging and connectivity software solutions. Boldon James' products are primarily supplied into the defence and intelligence sectors via global system integrators such as EDS and Fujitsu.

Year ended 31 December	2006	2005
	£ million	£ million
Sales	6.6	5.8
Profit before tax	1.4	1.3
Retained profit	1.4	1.3
Net assets	2.2	0.8

www.boldonjames.com

THE ART GROUP LIMITED London

Market leader in art publishing

First Investment: October 2003
Cost: £1,576,000
Valuation: £1,655,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 8.6%

The Art Group Limited is a market leading publisher of art content on cards, posters and canvas prints sold to retailers, in over 50 countries, such as IKEA and Habitat. It raised £4.5 million to support a management buy-out.
Amongst its artists under licence is Jack Vettriano whose work it has exclusive rights to market globally.

Year ended 31 December	2005	2004
	£ million	£ million
Sales	32.4	26.4
Profit before tax	2.3	1.4
Retained profit	1.3	0.6
Net assets	3.5	2.5

www.artgroup.com

HAWKSMERE LIMITED London

Provider of professional training seminars and conferences

First Investment: December 2003
Cost: £942,000
Valuation: £1,591,000
Valuation Basis: Discounted price earnings
Percentage of equity held: 15.5%

Hawksmere Limited is a leading provider of professional training seminars and conferences in subjects ranging from business law to PR and senior management development. Hawksmere also operates outsourced training contracts for a range of partners including Croner and the Royal Town Planning Institute.
In December 2003 £6 million was raised to support a management buy-out. Hawksmere operates from an office in London and currently employs 40 staff.

Year ended 31 December	2006	2005
	£ million	£ million
Sales	8.0	8.0
Loss before tax	(1.0)	(1.5)
Retained loss	(1.0)	(1.5)
Net liabilities	(3.2)	(2.2)

www.hawksmere.co.uk

Creating Shareholder Value

HOW ISIS REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 2 PLC

Baronsmead VCT 2 plc invests primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM, run by entrepreneurial managers. It is the growth aspirations of these companies and their track record that make them above average and out of the ordinary.

The following four examples show how this approach has led to an increase in the investment value. The ISIS selection criteria include:

- Ability to become a market leader in their chosen niche
- Management teams who can deliver profitable and sustained growth
- Company can become a premium asset attractive to multiple bidders on exit

ISIS seeks selective opportunities from its four UK offices through a combination of corporate finance advisers and direct approaches.

For the unquoted investments the ISIS team participates actively at Board level in the major decisions, setting the business plan and development of the management team. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

kidsunlimited, Wilmslow

kidsunlimited has earned a reputation as leaders in top quality, progressive childcare. For over twenty years now ''we've been giving young children boundless opportunities to learn through imagination, creativity and play, while offering parents peace of mind that comes from knowing their children couldn't be better cared for.''

kidsunlimited is a provider of day care facilities to children up to the age of five years old operating more than 50 sites through a combination of owned nurseries and those located within the workplace.

Since first investment in June 2001, the UK market for daycare has changed markedly following rapid capacity growth, heightened regulation and government supply and demand initiatives, including the introduction of childcare vouchers. This has required the management team working in conjunction with ISIS to continually adapt the strategy of the business. Unbowed by such influences, turnover has grown almost three-fold in the six years to 30 April 2007. The growth has seen the value of the investment increase 2.8 times over initial cost by 30 September 2007.

www.kidsunlimited.co.uk

Development of the management team

Building the right strategy

JELF GROUP PLC, Yate

www.jelfgroup.co.uk

The Jelf Group is one of the leading corporate consultancies in the South of England and Wales with offices across those regions. As a full service consultancy, businesses are advised across a range of services including insurance, healthcare, employee benefits, commercial finance and wealth management.

The Group has undertaken a series of acquisitions and embraced a new regulatory environment in which the FSA oversees the general insurance, healthcare and mortgage markets. In the three years to 30 September 2006, annual turnover has grown from £8.5 million to £25.1 million.

Since first investment by ISIS in October 2004 on the AiM flotation and subsequently again in February 2006, the combination of organic and acquisition growth has increased the share price of the investment to 2.7 times the combined cost. On float, ISIS held the largest institutional shareholding of 13.8 per cent.

Jelf Group plc

FISHER OUTDOOR LEISURE, St. Albans

With origins dating back to 1934, Fisher Outdoor Leisure has grown with 3 generations of the Fisher family to become one of the leading distributors of bicycle parts and accessories to the UK's independent bike dealers, retail chains and on-line retailers.

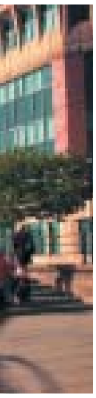
Fisher's product range consists mainly of branded products, covering most categories of the cycle parts and accessories market. Products are sourced from suppliers all over the world and over 30 brands are distributed by Fisher under exclusive distribution contracts.

In 2006, ISIS backed the former Commercial Director, Richard Allmark in a management buy out. ISIS introduced an experienced chairman to the business with highly relevant commercial experience and assisted Richard with recruitment of a Finance Director and Sales Director. With these new skills and experience the business is well placed to capitalise upon the growing level of consumer interest and government support for cycling as a healthy and 'green' mode of transport.

Based on the level of current profitable trading, the investment has been revalued to 1.7 times cost.

www.fisheroutdoor.co.uk

Exploiting the market opportunity



SLR HOLDINGS, Aylesbury

SLR Holdings Limited is a multi-disciplinary environmental consultancy which has achieved rapid growth over the last 12 years including organic growth of over 20 per cent per annum in the five years to the end of 2006.

The company provides high quality environmental services to private and public sector clients throughout the UK and overseas. The company continues to expand and, following the acquisition of SEACOR in Canada in September 2007, now employs 600 staff based in 15 offices in the UK and 24 in North America.

Since the investment by ISIS in September 2004, the business has scaled considerably and at 30 September 2007, the value of the initial investment is 3.9 times the cost. This computation includes the 90 per cent redemption of the investment cost in September 2006 comprising the ISIS loan stock and interest and a sizeable unscheduled dividend.

ISIS was attracted to the business by the strong management team, the broad range of technical skills and the growing levels of demand for technical assistance in sectors that were increasingly in the public eye, and facing high levels of scrutiny from government and regulators.

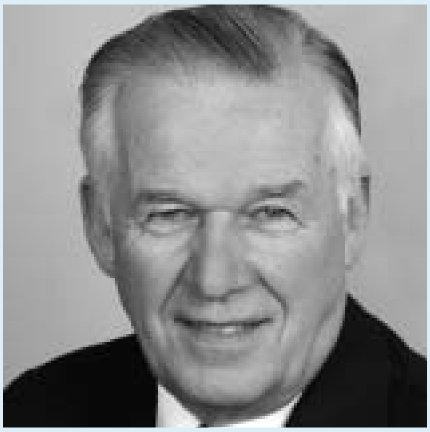
www.slrconsulting.co.uk

Board of Directors

as at 30 September 2007

Clive Parritt (Chairman)

(Date of Appointment 18 February 1998),
(age 64) is a chartered accountant with over 30 years' experience of providing strategic, financial and commercial advice to medium sized businesses. Until February 2001 he was chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is a member of the Council and Board of the Institute of Chartered Accountants in England and Wales and chairman of BG Consulting Group Limited. He is also a director of London & Associated Properties plc and F&C US Smaller Companies PLC. He specialises in corporate finance and was chief executive of a leading independent corporate finance house until July 2003. Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses. He is also a non-executive director of Baronsmead AIM VCT plc.



Godfrey Jillings
(Date of Appointment 18 February 1998), (age 67) is a non-executive director/chairman of several fast growth unquoted companies including Gladedale Holdings (deputy chairman). Gladedale Holdings is now in the top 10 national housebuilding groups and one of Britain's most profitable private companies. He held a range of senior executive appointments at NatWest including responsibility for their retail stockbroking, unit trust and PEP operations. He was a CEO of FIMBRA, the regulatory body for IFAs and a deputy CEO of its successor, the PIA (1990–1994). He was deputy chairman of DBS plc (1996–2002), the leading IFA network prior to its take-over and is also a director of Baronsmead VCT plc.

Gillian Nott (OBE)
(Date of Appointment 18 February 1998), (age 62) has in-depth experience of private investors as chief executive of ProShare (1994–99). Previously she was responsible for the private equity portfolios at BP and until November 2004 she was a director of the FSA. She is a director of Martin Currie Portfolio Investment Trust plc, Merrill Lynch British Smaller Companies Trust plc and chairman of Witan Pacific Investment Trust PLC. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 3 plc. Gill is also deputy chairman of the AIC.

Nicholas Timpson
(Date of Appointment 18 February 1998), (age 66) was the founder, chairman and managing director of Furnitureland Holdings plc. He is chairman of Whitemeadow Furniture Ltd and a director of The Vestey Group Ltd. He brings to the board long experience in the development of private companies. Before founding Furnitureland Holdings plc in 1973, he worked as a management consultant for McKinsey & Co.

As a fully listed Company, Baronsmead VCT 2 plc is required to comply with the Combined Code relating to its Corporate Governance. This Code requires the Company to be headed by an effective Board of Directors who lead and control the Company's affairs.

The directors of a VCT and investment managers are required under the listing and continuing obligations of the London Stock Exchange to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest.

Summary Financial Statement

This Summary Financial Statement has been prepared voluntarily by the Directors in accordance with the relevant requirements of section 251 of the Companies Act 1985. It does not contain sufficient information to allow a full understanding of the results and state of affairs of the Company. For further information, the full Report and accounts, the Auditor's Report on those financial statements and the Directors' Report should be consulted. A copy of the full Report and accounts, which may be obtained free of charge from the Company Secretary, will be delivered to the Registrar of Companies after the Annual General Meeting. Shareholders wishing to receive the full Report and accounts in future years may opt to do so by sending signed, written notice to the Company Secretary. KPMG Audit Plc have reported on the Company's Report and accounts for the eighteen month period ended 30 September 2007; this report was unqualified and contained no statement under section 237(2) and (3) of the Companies Act 1985.

Summary Directors' Report

Results and Dividends

The Directors submit the ninth Report and Accounts of the Company for the eighteen month period ended 30 September 2007.

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. The Directors have managed, and intend to continue to manage, the Company's affairs in such a manner as to comply with Section 274 of the Income Tax Act 2007 and the Company has received full approval as a Venture Capital Trust from HM Revenue & Customs for the year to 31 March 2006. A review of the Company's business during the period is contained in the Chairman's Statement and Manager's Review.

Issue and Buy-Back of Shares

During the period, the C shares converted into ordinary shares. As stated in the C share prospectus (the 'Prospectus'), dated 3 September 2004, the calculation date for conversion was to be no later than 31 March 2007.

In accordance with the terms set out in the Prospectus, the conversion ratio of C shares into ordinary shares was 0.96576068 and this was calculated by taking the net asset value of assets of the C shareholders at the calculation date of 31 December 2006 (111.296 pence per share) and dividing it by the net asset value of the assets of the existing ordinary shareholders at 31 December 2006 (115.242 pence per share).

On 24 January 2007, the conversion of the C shares into ordinary shares resulted in 21,485,211 ordinary shares being issued.

During the period the Company bought back 1,125,000 ordinary shares to be held in Treasury, at a cost of £1,159,000. These shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 2,220,000 ordinary shares in Treasury representing 3.6 per cent of the issued share capital as at 9 November 2007.

C Shares

On 2 November 2006, the Company received court approval for the cancellation of the share premium account of the C shares, (then standing at a credit of £10,031,000) and the transfer of this amount to the Special Distributable Reserve.

Shareholder approval allows distributions to be made from that reserve and accordingly the reserve has been amalgamated with the profit and loss account of the Company.

Directors

Biographies of the Directors are shown on page 16.

The Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as all the Company's Directors have held office for a period of more than nine years, all Directors will retire by rotation at the tenth Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors continues to be effective and demonstrates commitment to the role; the Board believes that it is therefore in the best interests of shareholders that these Directors be re-elected.

Summary Financial Statement

The Directors who held office during the period, and their interests in the shares of the Company were:

	30 September 2007	31 March 2006	
	Ordinary 10p shares	Ordinary 10p shares	C 50p shares
Clive Parritt*	**57,758**	**50,802**	**–**
Godfrey Jillings	**170,687**	**170,687**	**–**
Gillian Nott	**11,799**	**11,799**	**–**
Nicholas Timpson	**300,219**	**250,000**	**52,000**
Total shares held	**540,463**	**483,288**	**52,000**

*Beneficial and family.

There have been no changes in the holdings of the Directors between 30 September 2007 and 9 November 2007.

No Director has a service contract with the Company.

All Directors are members of the Audit, Remuneration and Nomination Committees.

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

Corporate Governance

The full Corporate Governance Statement is set out in the Report and accounts for the eighteen month period ended 30 September 2007.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 10 December 2007 can be found in the Notice of Meeting on pages 27 and 28.

Management

ISIS EP LLP ('the Manager') manages the investments for the Company. From 1 January 2007, the liquid assets within the portfolio (being cash, gilts and other assets, which are not categorised as venture capital investments for the purpose of the FSA's rules) have been managed by FPPE LLP. This was a new limited partnership, which is authorised and regulated by the FSA and which has the same controlling members as the Manager. The Manager has continued to act as the manager of the Company and as the Investment Manager of the Company's illiquid assets (being all AiM-traded and other venture capital investments).

The personnel involved in providing management and investment management services to the Company has not changed as a result of the implementation of these arrangements.

The Manager will also provide or procure the provision of secretarial, administrative and custodian services to the Company. The management agreement may be terminated at any date by either party giving twelve months' notice of termination. Under the management agreement, the Manager receives a fee of 2.0 per cent per annum of the net assets of the Company.

In addition, the Manager receives an annual secretarial fee of £35,540, adjusted annually for movements in the UK Retail Price Index, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million, subject to annual review. The annual secretarial fee is subject to a maximum of £100,000 per annum, excluding VAT.

Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole.

Summary Financial Statement

Co-investment Scheme

The Co-investment Scheme requires that executive members of the Manager invest their own personal capital into five per cent of the ordinary shares of each and every unquoted investment excepting those life science transactions where ISIS EP LLP is not the lead investor. From 1 April 2007, the rate increased to 12 per cent. By 30 September 2007, a total of £251,740 had been invested in ordinary shares of 13 unquoted investments by 31 executives.

Shares held under the Scheme cannot be sold unless and until each investment held by the four Baronsmead VCTs is sold contemporaneously. Gains for the executives will only be achieved if the Baronsmead VCTs make gains from the underlying investment. If the executive leaves before the sale of the investment, they may miss out on much of the potential value inherent in their Co-investment shares. The Scheme is intended to help attract, recruit, retain and incentivise executive members of the Manager.

Procedures are in place whereby the Board receives regular updates from the Manager regarding participants in the Co-investment Scheme and the amounts committed by ISIS EP LLP to each new unquoted investment. The Board also reviews the Co-investment Scheme arrangements at each quarterly valuation meeting. An open dialogue is maintained between the Board and the Manager regarding the operation of the Scheme.

Performance Incentive

The Manager is entitled to a performance fee, provided a target rate of return is exceeded. The Board believes it is important for the objectives of the shareholders and the remuneration of the Manager to be closely aligned. Accordingly the remuneration of the Manager is directly related to the overall performance of the Company's assets under management and is based on the increase in the total return (net asset value plus dividends reinvested) rather than dividends paid.

Shareholder approval for the performance fee arrangement was given with effect from 1 July 2004. The Manager is entitled to a performance fee if at the end of any calculation period (each separate accounting period), the total return on shareholders' funds, calculated on a compound basis, exceeds the threshold of UK base rate plus 2 per cent on shareholders' funds. The Manager is entitled to 20 per cent of the excess (plus VAT), with the performance fee capped at 5 per cent of shareholders' funds at the end of the period. From 1 April 2007, the rate of 20 per cent was reduced to 16.66 per cent, effective until 31 March 2008. The rate will then reduce to 13.33 per cent until 31 March 2009 and to 10 per cent thereafter.

A performance fee of £508,000 (including VAT) was paid for the twelve month period ended 31 March 2007.

While the accounting period was extended by six months to 30 September 2007, the total return for this additional period did not exceed the performance fee trigger and accordingly no further performance fee is payable.

Redesignation of unissued C shares

Resolution 8 sub-divides and redesignates all the C shares of 50p each in the authorised but unissued share capital of the Company as ordinary shares of 10p. Upon the passing of this resolution the Company's authorised issued and unissued share capital will only comprise ordinary shares of 10p each.

Directors' Authority to Allot Shares, to Disapply Pre-emption Rights and to re-issue Treasury Shares

The authority proposed under Resolution 9 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the best interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase ordinary shares in the market. Resolution 9 renews the Directors' authority to allot ordinary shares. This would enable the Directors, until 9 December 2012, to allot up to 6,127,660 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 9 November 2007).

Resolution 10 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue new ordinary shares and/or re-issue shares out of Treasury for cash without pre-emption rights applying

Summary Financial Statement

by way of offer to existing shareholders or new investors up to a maximum of 6,127,660 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 9 November 2007). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole.

Treasury Shares

The Company currently holds 2,220,000 ordinary shares in Treasury. If Resolution 10 is passed, the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interest of the Company to do so. However, ordinary shares will never be re-issued out of Treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company.

Landsbanki Securities (UK) Limited (formerly Teather & Greenwood), the Company's brokers, currently provide a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing Treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30 per cent initial income tax relief, all further dividends will be tax-free and if these shares are subsequently sold no capital gains tax will be payable by qualifying shareholders.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 11 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Extension to the life of the Company

One of the main changes brought about by the Finance Act 2006 is that the holding period for investments moves from 3 years to 5 years from 6 April 2006. This means that in order for initial income tax relief not to be withdrawn, shareholders must hold their shares for 5 years from the date of investment. Resolution 12, which would extend the life of the Company to beyond the AGM in 2014 will permit new shares to be issued in the next financial year.

Summary Business Review

The full Business Review is set out in the Report and accounts for the eighteen month period ended 30 September 2007.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the twin objectives of achieving long-term capital growth and generating tax-free dividends.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE All-Share Total Return Index. This index, as the widest measure of UK quoted equities, has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of six other generalist venture capital trusts. A review of the Company's performance during the financial period, the position of the Company at the period end and the outlook for the coming year is contained within the Chairman's statement on pages 4 to 6.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on pages 1 to 3 of this Summary report.

Strategy for achieving objectives

Baronsmead VCT 2 plc is a tax efficient company listed on The London Stock Exchange.

Investment objective

The investment objective of the Company is to achieve long-term capital growth and generate tax free dividends and capital distributions for private investors.

Investment policy

The Company's investment policy is to invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AiM.

Summary Financial Statement

Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities, and fixed-interest securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AiM investments are primarily held in ordinary shares. Pending investment in unquoted and AiM-traded securities, cash is primarily held in an interest bearing money market open ended investment company (OEIC) and UK gilts.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees will trade overseas. The companies in which investments are made must have no more than £15 million of gross assets at the time of investment (or £7 million if the funds being invested were raised after 5 April 2006) to be classed as a VCT qualifying holding.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HMRC. Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in Qualifying Holdings, of which 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10 per cent by value of its total investments in any Qualifying Company in ordinary shares which carry no preferential rights.

Asset mix

The Company aims to be at least 90 per cent invested in growth businesses subject always to the quality of investment opportunities and the timing of realisations. Any un-invested funds are held in cash and interest bearing securities. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different industry sectors using a mixture of securities. The maximum amount invested in any one company is limited to £1 million in a fiscal year and generally no more than £2.5 million at cost is invested in the same company. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

Investment style

Investments are selected in the expectation that the application of private equity disciplines including an active management style for unquoted companies will enhance value and enable profits to be realised from planned exits.

Co-investment

The Company aims to invest in larger more mature unquoted and AiM companies and to achieve this it invests alongside the other Baronsmead VCTs. As such, at the time of initial investment, the combined investment can currently total up to a maximum of £6.5 million for unquoted and £4.4 million for AiM investees. Currently, the Manager and its executive members are mandated to invest in unquoteds alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only.

Management

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity. Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 7 to 9 provides a review of the investment portfolio and of market conditions during the period.

Summary Financial Statement

Summary Directors' Remuneration Report

Policy on Directors' Fees

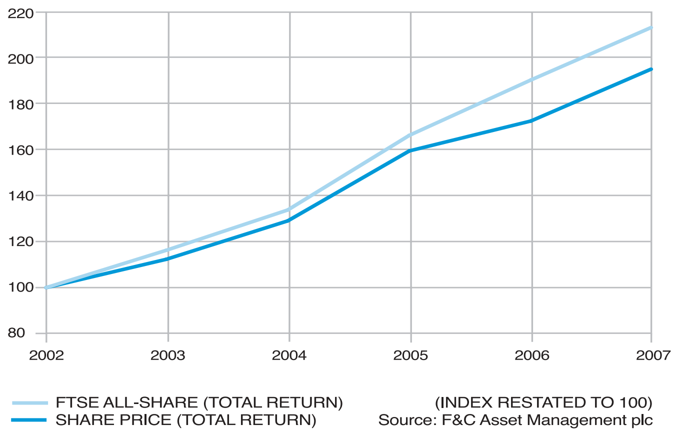
The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2008 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £75,000 per annum (as varied by the UK Retail Prices Index from year to year) and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement. The following graph compares for the five years ending 30 September 2007, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a widely understood broad equity market index against which investors can measure the relative performance of the Company. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Ordinary Share price total return and the FTSE All–Share Index total return performance graph



Directors' emoluments for the Period (audited)

The Directors who served in the period received the following emoluments in the form of fees:

	Fees 2007 (18 month period) £	Fees 2006 £
C Parritt	**31,500**	21,000
G Jillings	**21,000**	14,000
G Nott	**21,000**	14,000
N Timpson	**21,000**	14,000
Total	**94,500**	63,000

G Nott

Chairman of the Management Engagement and Remuneration Committee

9 November 2007

Independent Auditors’ Report

Independent Auditors’ Statement to the Shareholders of Baronsmead VCT 2 plc

We have examined the summary financial statement which comprises the Summary Directors’ Remuneration Report, Income Statement, Balance sheet and Reconciliation of Movements in Shareholders’ Funds set out on pages 22 and 24 to 26.

This statement is made solely to the Company’s members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Report in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Report with the full financial statements, the Directors’ Report and the Directors’ Remuneration Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Summary Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 ‘The auditor’s statement on the summary financial statement’ issued by the Auditing Practices Board. Our report on the Company’s full financial statements describes the basis of our audit opinion on those financial statements and the Directors’ Remuneration Report.

Opinion

In our opinion the summary financial statement is consistent with the full financial statements, the Directors’ Report and the Directors’ Remuneration Report of Baronsmead VCT 2 plc for the eighteen month period ended 30 September 2007 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
9 November 2007

Income Statement

For the eighteen month period ended 30 September 2007

	Total		
	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Unrealised gains on investments	–	6,288	6,288
Realised gains on investments	–	1,820	1,820
Income	3,474	–	3,474
Investment management fee	(624)	(2,380)	(3,004)
Other expenses	(624)	–	(624)
Profit on ordinary activities before taxation	**2,226**	**5,728**	**7,954**
Taxation on ordinary activities	(459)	459	–
Profit on ordinary activities after taxation	**1,767**	**6,187**	**7,954**
Return per ordinary share			
– Basic	2.86p	10.02p	12.88p

The 'Total' column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations.

No operations were acquired or discontinued in the period.

Reconciliation of Movements in Shareholders' Funds

For the eighteen month period ended 30 September 2007

	2007 Ordinary shares £'000	2007 C shares £'000	2007 Total £'000
Opening shareholders' funds at 31 March 2006	**46,897**	**22,677**	**69,574**
Conversion of C shares	24,760	(24,760)	–
Profit for the period	5,513	2,441	7,954
Purchase of shares for Treasury	(1,159)	–	(1,159)
Expenses of share issue/conversion of share premium	(23)	(2)	(25)
Dividends paid	(7,243)	(356)	(7,599)
Closing shareholders' funds at 30 September 2007	**68,745**	**–**	**68,745**

Income Statement

For the Year ended 31 March 2006

	Ordinary shares			C shares			Total		
	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Unrealised gains on investments	–	3,997	3,997	–	1,838	1,838	–	5,835	5,835
Realised gains/(losses) on investments	–	1,590	1,590	–	(60)	(60)	–	1,530	1,530
Income	1,903	–	1,903	1,091	–	1,091	2,994	–	2,994
Investment management fee	(278)	(1,517)	(1,795)	(129)	(485)	(614)	(407)	(2,002)	(2,409)
Other expenses	(241)	–	(241)	(127)	–	(127)	(368)	–	(368)
Profit on ordinary activities before taxation	1,384	4,070	5,454	835	1,293	2,128	2,219	5,363	7,582
Taxation on ordinary activities	(284)	375	91	(247)	156	(91)	(531)	531	–
Profit on ordinary activities after taxation	1,100	4,445	5,545	588	1,449	2,037	1,688	5,894	7,582
Return per ordinary share/C share									
– Basic	2.68p	10.81p	13.49p	2.66p	6.56p	9.22p	–	–	–

Reconciliation of Movements in Shareholders' Funds

For the Year ended 31 March 2006

	2006 Ordinary shares £'000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds at 31 March 2005	48,469	21,129	69,598
Profit for the year	5,545	2,037	7,582
Deferred consideration	12	–	12
(Decrease)/increase in share capital in issue	(459)	239	(220)
Dividends paid	(6,670)	(728)	(7,398)
Closing shareholders' funds at 31 March 2006	46,897	22,677	69,574

Balance Sheet

As at 30 September 2007

	30 September 2007	31 March 2006		
	Ordinary Shares Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets				
Investments	**67,440**	44,512	21,321	65,833
Current assets				
Debtors	**690**	230	72	302
Cash at bank and on deposit	**1,167**	3,290	1,672	4,962
	1,857	3,520	1,744	5,264
Creditors (amounts falling due within one year)	**(505)**	(1,135)	(388)	(1,523)
Net current assets	**1,352**	2,385	1,356	3,741
Total assets less current liabilities	**68,792**	46,897	22,677	69,574
Creditors (amounts falling due after one year)	**(47)**	–	–	–
Net assets	**68,745**	46,897	22,677	69,574
Capital and reserves				
Called-up share capital	**6,350**	4,201	11,124	15,325
Share premium account	**3,563**	3,574	10,033	13,607
Capital redemption reserve	**9,254**	279	–	279
Revaluation reserve	**11,240**	5,807	2,040	7,847
Profit and loss account	**38,338**	33,036	(520)	32,516
Equity shareholders' funds	**68,745**	46,897	22,677	69,574
Net asset value per share				
– Basic	**112.19p**	114.62p	101.93p	–
– Treasury	**111.80p**	114.62p	–	–

The financial statements were approved by the Board of Directors on 9 November 2007 and were signed on its behalf by:

CLIVE A PARRITT FCA (Chairman)

Notice of Annual General Meeting

Notice is hereby given that the tenth Annual General Meeting of Baronsmead VCT 2 plc will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS, on 10 December 2007 at 3.30 pm for the following purposes:

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

Ordinary business

1. That the Report and Accounts for the period to 30 September 2007 be received.

2. That the Directors' Remuneration Report for the period to 30 September 2007 be approved.

3. That Clive Parritt, who retires by rotation at the Annual General Meeting, be re-elected as a Director.

4. That Godfrey Jillings, who retires by rotation at the Annual General Meeting, be re-elected as a Director.

5. That Gillian Nott, who retires by rotation at the Annual General Meeting, be re-elected as a Director.

6. That Nicholas Timpson, who retires by rotation at the Annual General Meeting, be re-elected as a Director.

7. That KPMG Audit Plc, Chartered Accountants, be re-appointed as auditors and that the Directors be authorised to determine their remuneration.

Special business

Ordinary resolutions

8. That each and every C share of 50p each in the authorised but unissued share capital of the Company be and they are hereby sub-divided and redesignated into five ordinary shares of 10p each in the authorised but unissued share capital of the Company.

9. That:

   (a) the Directors of the Company (the ''Directors'') be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the ''Act''), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £612,766 during the period commencing on the passing of this resolution and expiring on 9 December 2012 (unless previously revoked, varied or extended by the Company in 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

   (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special resolutions

10. That subject to the passing of resolution 9 set out in the notice of this meeting:

   (a) the Directors of the Company (the ''Directors'') be and are hereby empowered, pursuant to section 95(1) of the Companies Act 1985 (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 pursuant to resolution 9 set out in the notice of this meeting 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 in connection with:

      (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of ordinary shares of 10p each in the Company (''Ordinary Shares'') and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

Notice of Annual General Meeting

(ii) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of £612,766 provided that the maximum number of Ordinary Shares which may be allotted pursuant to this sub-paragraph (ii) shall be 6,127,660 Ordinary Shares,

and shall expire on the date falling 15 months after the date of the 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, make offers or agreements which would or might require equity securities to be allotted after such expiry and in this resolution ''allot'' and ''allotment'' shall be construed in accordance with section 94(3A) of the Act;

(b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

11. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 10p each in the Company (''Ordinary Shares''), provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 9,185,360;

(b) the minimum price which may be paid for each Ordinary Share is 10p;

(c) the maximum price which may be paid for an ordinary share shall not exceed the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase;

(d) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2008 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.

12. That the Articles of Association of the Company be and are hereby amended by deleting the first sentence in Article 160.1 and replacing it with the following sentence:

''The Board shall procure that at the annual general meeting of the Company in 2014, and every annual general meeting thereafter, an ordinary resolution will be proposed to the effect that the Company shall continue in being as a venture capital trust.''

By Order of the Board

Rhonda Nicoll
for F&C Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU

9 November 2007

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 3.30 pm on 6 December 2007, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 3.30 pm on 6 December 2007, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

To be valid, a proxy card must be lodged with the Company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB at least 48 hours before the meeting. A proxy card for use by shareholders is enclosed. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.

Shareholder Information and Contact Details

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP, queries regarding share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www.computershare.com. Please note that to access this facility investors will need to quote the reference number shown on their share certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see www.computershare.com/investor for further information.

Shareholder helpline

The shareholder helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will let you do the following things:

Automated functions

– confirm the latest share price
– confirm your current share holding balance
– confirm payment history
– order a change of address, dividend bank mandate or stock transfer form

e-mail: web.queries@computershare.co.uk
Tel: 0870 703 0137 (Calls charged at national rate).

Information on DRIP mechanism, share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)
www.baronsmeadvct2.co.uk
e-mail: rhonda.nicoll@fandc.com
Tel: 0131 718 1074. Fax: 0131 225 2375.

Any other points, i.e. valuations of underlying companies, asset allocations, dividend policies and the investment process:

ISIS EP LLP (Investment Manager)
www.isisep.com
Contains details of the team and some case studies of historical investments.

e-mail: david.thorp@isisep.com; prem.mohan-raj@isisep.com; margaret.barff@isisep.com

Tel: David Thorp 020 7506 5631; Prem Mohan-Raj 020 7506 5640;
Margaret Barff 020 7506 5630.

Trading Shares

The Company's shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange through a stockbroker. The market makers for Baronsmead VCT 2 plc are:

• Landsbanki Securities (formerly Teather & Greenwood)	(020 7426 9000)
• UBS Warburg	(020 7567 8000)
• Winterfloods	(020 7621 0004)

Please call the Company Secretary if you or your adviser have any questions about this process.

Financial Calendar

10 December 2007	Tenth Annual General Meeting
February 2008	Quarter end 31 December 2007 VCT factsheet sent to shareholders
May 2008	Posting of interim report for the six months to 31 March 2008
August 2008	Quarter end 30 June 2008 VCT factsheet sent to shareholders
November 2008	Announcement of final results for year to 30 September 2008

Corporate Information

Directors
Clive Anthony Parritt (Chairman)*
Godfrey Frank Jillings†
Gillian Nott OBE‡
Nicholas George Lawrence Timpson¶

Secretary
F&C Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Manager
ISIS EP LLP
100 Wood Street
London EC2V 7AN

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

Registered Number
03504214

Registrars and Transfer Office
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 703 0137

Stockbrokers
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors
KPMG Audit Plc
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors
Norton Rose
3 More London Riverside
London SE1 2AQ

*Chairman of the Audit Committee
†Chairman of Nomination Committee
‡Chairman of Management Engagement and Remuneration Committee
¶Senior Independent Director

Shareholder communication

The Board has a policy of regular and open communication with shareholders based around quarterly statutory reporting.

Electronic communication has been introduced following new legislation in the 2006 Companies Act and the website, www.baronsmeadvct2.co.uk, is currently being developed.

Additional information

The information provided in this report has been produced for shareholders to be informed of the activities of the Company during the period it covers. ISIS EP LLP does not give investment advice and the naming of companies in this report is not a recommendation to deal in them.

Baronsmead VCT 2 plc is managed by ISIS EP LLP which is Authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stockmarkets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in unquoted securities and smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment.

Summerhall Corporate 38346