

# BARONSMEAD

Baronsmead VCT 2 plc

# 2011

Annual report & accounts  
for the year ended  
30 September 2011



# Investment Objective

Baronsmead VCT 2 is a tax efficient listed company which aims to achieve long-term investment returns for private investors, including tax free dividends.

## 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 and risk management are contained in the Directors' Report on pages 19 to 21.

## Dividend policy

The Board of Baronsmead VCT 2 aims to sustain a minimum annual dividend level at an average of 5.5p per Ordinary Share, mindful of the need to maintain net asset value. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and cannot be guaranteed. There will be variations in the amounts of dividends paid year on year.

Since launch, the average annual tax free dividend paid to Shareholders has been 6.4p per share (equivalent to a pre-tax return of 8.5p per Ordinary Share for a higher rate taxpayer). For Shareholders who claimed tax reliefs of 20 per cent, 30 per cent or 40 per cent, their returns would have been higher.

## Secondary market in the shares of Baronsmead VCT 2 plc

The existing shares of the Company are listed on the London Stock Exchange and can be bought and sold using a stockbroker in the same way as shares of any other listed company.

Qualifying investors\* who invest in the existing shares of the Company can benefit from:

- Tax free dividends;
- Realised gains are not subject to capital gains tax (although any realised losses are not allowable);
- No minimum holding period; and
- No need to include VCT dividends in annual tax returns.

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 a capital gain in respect of new shares acquired prior to 6 April 2004.

\*UK income tax payers, aged 18 or over, who acquire no more than £200,000 worth of VCT shares in a tax year.

[www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk)

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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 Headlines

11.3%

Net Asset Value ("NAV") per share increased 11.3 per cent during the year to 102.15p before deduction of dividends.

7.0p

Dividends for the year totalled 7.0p per share.

231.3p

NAV total return to shareholders for every 100.0p invested since launch.

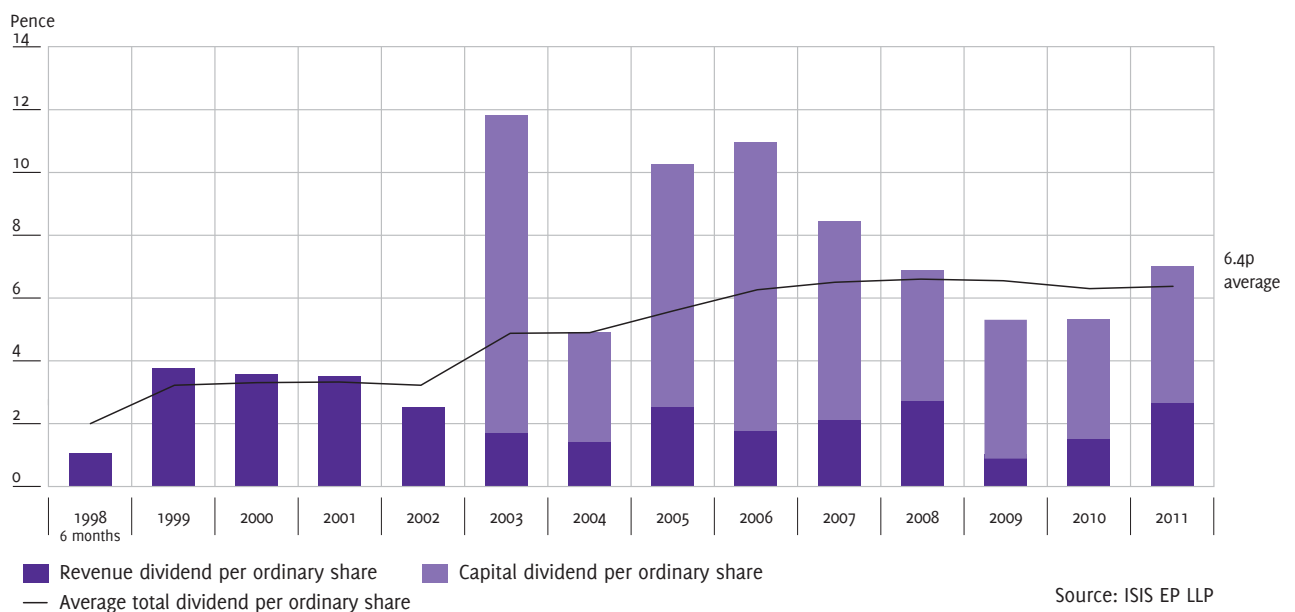
8.1%

A tax free yield of 8.1 per cent has been received by qualifying shareholders, based on the mid share price of 86.25p at the year end, and 7.0p dividends paid for the year.

85.9p

Cumulative tax free dividends total 85.9p per share for founder shareholders since 1998, equivalent to an annual average dividend of 6.4p per share.

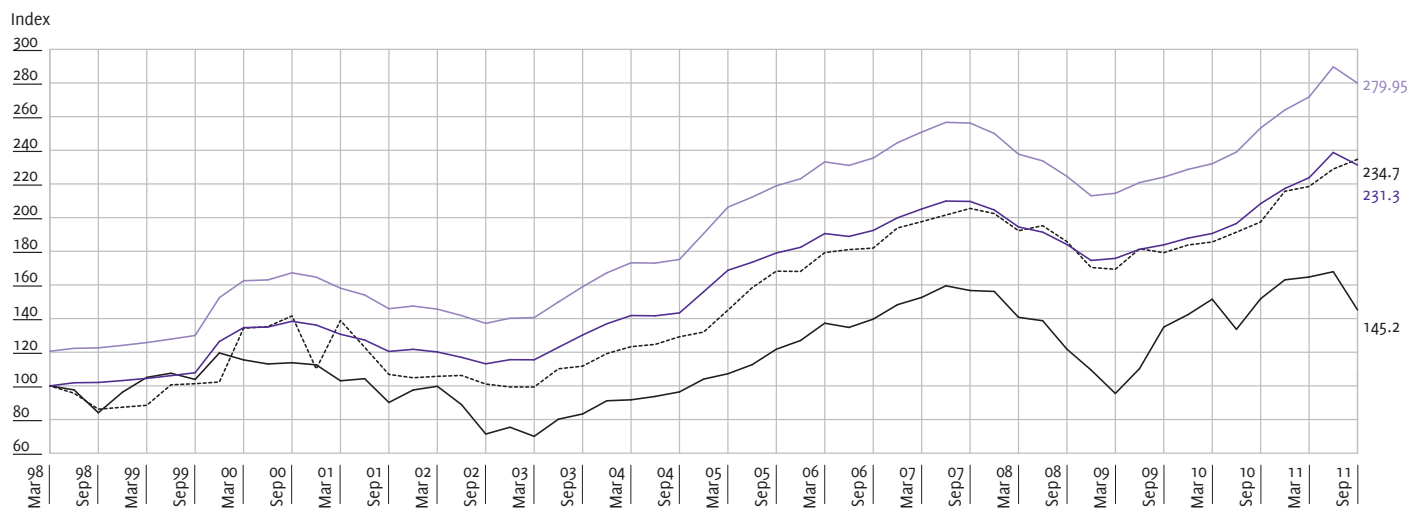
Dividend history since launch



# 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



- Adjusted NAV Total Return (gross dividends re-invested) rebased to 100p at launch – ordinary shares. For illustrative purposes only these returns have been adjusted to show the impact of the initial 20 per cent tax relief available to VCT qualifying founder shareholders and of reinvesting dividends assuming a higher rate of income tax.
- 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 Index Total Return rebased to 100p at launch

Source: ISIS EP LLP and AIC

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.

## Performance Summary to 30 September 2011

Total return*	1 year %	5 years %	10 years %	Since launch (2 April 1998) %
Net asset value†	+11.1	+20.2	+92.0	+131.3
Share price†	+18.9	+29.0	+95.7	+134.7
FTSE All-Share	(4.4)	+4.0	+59.2	+45.2

\* Source: ISIS EP LLP and AIC.

† These returns for Baronsmead VCT 2 ignore up front tax reliefs and the impact of receiving dividends tax free.

## Performance Record

Year ended	Total net assets £m	Ordinary share			FTSE All-Share total return p	Combined total expense ratio† %
		Net asset value p	Share price (mid) p	Net asset value total return* p		
31/03/1999	9.50	95.65	85.00	104.44	105.06	2.90
31/03/2000	31.00	119.59	125.00	134.62	115.45	3.40
31/03/2001	45.00	112.30	125.00	130.66	103.02	3.10
31/03/2002	41.20	100.54	92.50	120.15	99.76	2.70
31/03/2003	36.70	89.65	80.00	115.49	70.02	2.70
31/03/2004	41.10	100.63	90.00	141.80	91.72	2.70
31/03/2005	69.60	116.92	100.50	168.70	105.99	2.70
31/03/2006	69.60	114.62	100.50	190.51	135.69	2.90
30/09/2007	68.70	112.19	101.00	209.62	154.89	3.00
30/09/2008	54.80	91.68	84.50	184.02	121.80	2.85
30/09/2009	61.22	89.06	77.50	183.81	134.96	2.66
30/09/2010	63.67	94.79	81.25	208.25	151.81	2.58
<b>30/09/2011</b>	<b>65.00</b>	<b>95.15</b>	<b>86.25</b>	<b>231.26</b>	<b>145.18</b>	<b>2.44</b>

\* Source: ISIS EP LLP.

† As a percentage of average total shareholders' funds (excluding performance fees).

# Summary Since Launch

## Dividends Paid Since Launch

Year ended	Revenue dividend p	Capital dividend p	Total annual dividend p	Cumulative dividends p	Average total annual dividend p
6 months to 30/09/1998	1.00	0.00	1.00	1.00	0.50
30/09/1999	3.80	0.00	3.80	4.80	3.20
30/09/2000	3.60	0.00	3.60	8.40	3.36
30/09/2001	3.50	0.00	3.50	11.90	3.40
30/09/2002	2.50	0.00	2.50	14.40	3.20
30/09/2003	1.70	10.20	11.90	26.30	4.78
30/09/2004	1.40	3.50	4.90	31.20	4.80
30/09/2005	2.50	7.70	10.20	41.40	5.52
30/09/2006	1.80	9.20	11.00	52.40	6.16
30/09/2007	2.10	6.40	8.50	60.90	6.41
30/09/2008	2.80	4.20	7.00	67.90	6.47
30/09/2009	0.70	4.80	5.50	73.40	6.38
30/09/2010	1.50	4.00	5.50	78.90	6.31
<b>30/09/2011</b>	<b>2.65</b>	<b>4.35</b>	<b>7.00</b>	<b>85.90</b>	<b>6.36</b>

## 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	100.0	20.0	80.0	85.9	8.0	10.6
1999 (May) – Ordinary	102.0	20.4	81.6	82.4	8.2	10.9
2000 (February) – Ordinary	137.0	27.4	109.6	79.2	6.2	8.3
2000 (March) – Ordinary	130.0	26.0	104.0	79.2	6.6	8.8
2004 (October) – C	100.0	40.0	60.0	37.3	8.9	11.8
2009 (April)	91.6	27.5	64.1	18.0	11.3	15.0

C share dividend calculated using conversion ratio of 0.9657, which is the rate the C shares were converted into ordinary shares.

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

†The gross equivalent yield if the dividends had been subject to higher rate tax (currently 32.5 per cent on dividend income). The additional rate of tax on dividend income of 42.5 per cent which came into force from the 2010/11 tax year for those shareholders who earn more than £150,000 has not been included. For those shareholders who would otherwise pay this additional rate of tax on dividends, the future gross equivalent yield will be higher than the figures shown.

# Chairman's Statement

This Chairman's Statement forms part of the Report of the Directors.



Clive Parritt Chairman

I am pleased to report an increase in Net Asset Value ("NAV") of 10.36p per share (11.3 per cent) for the year to 30 September 2011. Before deducting dividends this increased our NAV to 102.15p per share. It was achieved primarily as a result of a series of profitable realisations from the unquoted portfolio. Reflecting this excellent result the Board decided to pay an increased second dividend making the total dividends for the year 7.0p per share as compared with 5.5p paid in each of the previous two financial years.

## INVESTMENT PERFORMANCE

### Results

The growth of 11.3 per cent in NAV over the year compares to a 4.4 per cent fall in the FTSE All-Share index over the same period. The changes can be summarised as follows:

	Pence per ordinary share
<b>NAV as at 1 October 2010 (after final dividend of 3.0p deducted)</b>	91.79
Valuation uplift (11.3 per cent)	10.36
	102.15
Interim dividend paid on 17 June 2011	(2.50)
Second interim dividend paid on 29 Sept 2011	(4.50)
<b>NAV as at 30 September 2011</b>	<b>95.15</b>

During the year four of our unquoted companies were sold at an average of 2.5 times original cost and realising net profits of £6.6 million. Two companies in particular contributed significantly to these figures. The sale of Reed & Mackay, which was announced with the interim results, was at a multiple of 4.8 times cost. This was an excellent investment return from a company that grew consistently throughout the recent recession as a result of its dedicated focus on service and value for customers. During September, the Company's investment in Quantix was sold realising a profit of £1.7 million and delivering a return of 3.1 times cost.

Approximately two thirds of the total return achieved in the year to 30 September 2011 has been paid to shareholders as dividends, which at 7.0p are 27 per cent higher than in the previous two financial years. The level of future dividends will, of course, depend upon continued profitable realisations, although the Board intends to maintain and hopefully improve the Company's dividend policy of maintaining an annual average dividend of 5.5p a share subject to maintaining NAV.

All of the VCT qualifying tests had also been met throughout the year.

### LONGER TERM PERFORMANCE AND BENEFIT OF THE VCT TAX RELIEFS

The Net Asset Value Total Return at 30 September 2011, calculated on the basis of reinvested dividends, is 231.3p for each 100p invested by founder shareholders before taking account of any VCT tax reliefs (refer to graph on page 2). The comparable return would be 280.0p if the initial income tax relief available at inception was included.

The tax free nature of a VCT is of particular benefit for qualifying shareholders as they do not have to pay income tax on the dividends they receive, or declare them in a tax return. This means that qualifying shareholders in Baronsmead VCT 2, who are higher and additional rate tax payers do not have to pay income tax equivalent to 25 per cent and 36.1 per cent respectively on the cash dividend they receive from the Company. To generate the same after-tax dividends, it would be necessary for the dividend received from a non-VCT investment to be 33.3 per cent or 56.5 per cent higher, respectively.

# Chairman's Statement

## PORTFOLIO

The valuation of the portfolio of sixty-eight companies has grown strongly over the twelve months to 30 September 2011. The direction of travel showing trading and profitability of these companies is recorded quarterly so that the Board can monitor the health of the portfolio. The continued poor economic backdrop in the UK is beginning to have some impact on performance with 80 per cent of investee companies progressing steadily at the year end compared with 92 per cent at the end of the previous year. Pleasingly the actions taken during the early crisis years of 2008/09 have resulted in most investee companies having lower borrowings and tighter cost control.

The net assets of £65.0 million were invested as follows:

- unquoted companies 44.6 per cent
- AIM-traded and other listed companies 26.2 per cent
- Wood Street Microcap Investment Fund 4.4 per cent
- in liquid assets or government securities 24.8 per cent.

The largest unquoted investment, Nexus Vehicle Holdings and the largest AIM investment, IDOX represented 8.6 and 3.8 per cent of net asset value respectively.

The most significant increases in individual investment valuations during the year were CableCom Networking Holdings (68 per cent) and Nexus Vehicle Holdings (34 per cent) both of which have increased profits significantly since the Company invested. The two largest AIM investments were IDOX and Staffline Group, both of which have continued to grow and trade more profitably.

Subsequent to the year end the Company invested £1.3 million in ICCM, a provider of high acuity care for home based care users. This has increased the total amount of net assets invested in unquoted companies to 46.7 per cent.

## VCT LEGISLATION AND WIDER REGULATION

There have been two positive actions by the Government to improve VCT legislation. The March 2011 Budget announced not only a better regime for entrepreneurs but also an intention to liberalise the rules governing the investments VCTs can make. From April 2012 the Government wishes to change the qualifying company rules so that investee companies can have up to 250 employees (rather than the present limit of up to 50 employees) and gross assets of £15 million (£7 million at present). Additionally the Government is proposing to increase the annual investment limit for qualifying companies to £10 million. These proposals are however subject to EU state aid approval which is currently being negotiated.

In July 2011, HM Treasury issued a consultation document which is aiming to refocus the VCT scheme on risk investments and seeking to remove some of the structural VCT constraints. Our Trade Association, the AIC, worked closely with the larger VCT Manager groups to provide a suitable response to this consultation. The response to the Treasury's consultation and research published by the AIC has stressed the extent to which the VCT sector has contributed to employment, innovation and growth in the economy.

The Company's investment manager, ISIS EP LLP, participated in these discussions and previously has provided data and case studies from the Baronsmead portfolios to the AIC, to assist them in producing economic impact data for the sector. This data demonstrates that the VCT sector has generated significant employment since inception and has contributed to the overall growth of the economy. In particular SDL and Vectura Group in which the Company invested in 1998 and 2001 respectively have grown into substantial companies that are now listed on the London Stock Exchange.

# Chairman's Statement

## ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our 14th Annual General Meeting to be held on Wednesday 11 January 2012 at the London Stock Exchange, 10 Paternoster Square near St Paul's Cathedral. Proceedings for the day commence at 9.45 a.m. with a shareholder workshop. This is followed by the AGM at 10.45 a.m. as well as presentations from the Manager and an investee company ending with a light lunch.

## OUTLOOK

My cautionary remarks in the interim report anticipated continued uncertainty and slower growth for the UK economy. The summer months have confirmed that this caution was justified. Concerns about the level of indebtedness of Western Economies, particularly in the EU, have led to significant stock market volatility and lower investor confidence.

Against this backdrop Baronsmead VCT 2 has realised good profits from the sale of a number of companies and its portfolio is lowly geared. The manager, ISIS, has the experience to guide portfolio companies through difficult trading environments and in this rapidly changing economic climate there will be specific sector opportunities to which the Manager remains alert and in which it intends to invest.

The Government needs to create a more business friendly environment and drive private sector growth, particularly by encouraging investment by individuals and the corporate sector. If they also succeed in liberalising the VCT regulations, it is companies like those in our portfolio which can generate the growth that the UK economy needs.

**Clive Parritt**

Chairman

18 November 2011



## Manager's Review



**Andrew Garside**



**Sheenagh Egan**



**Michael Probin**

Until Summer 2011, trading performance across the unquoted and AIM portfolio companies had improved compared to the previous year, including a series of profitable exits. The deterioration in the economy and now renewed threat of recession is having some impact on the portfolio but in general the companies are well placed to trade through a renewed downturn.

### PORTFOLIO REVIEW

The portfolio comprised sixty-eight investee companies at the year end after making nine realisations and adding eleven new investments. Capital proceeds from realisations totalled £13.6 million and net capital profits realised in the period were £7.0 million. Investment in unquoted and AIM traded companies were £5.5 million and £3.1 million respectively, including further round financings.

The new unquoted investments were in Valldata Group, a UK leading provider of outsourced donation processing and fulfilment services for the UK not-for profit sector; and three acquisition companies. Each of the acquisition companies is led by an experienced Chairman who had previously been backed by ISIS through investment by the Baronsmead VCTs. These prior investee companies were ScriptSwitch a healthcare IT company, Reed & Mackay a business travel management company and Hawksmere a business training company. All three investments delivered successful realisations for shareholders and the three Chairmen are now seeking new opportunities in their chosen sectors.

The volume of qualifying AIM opportunities again increased from the depressed levels of 2009. A total of £ 2.0 million was invested into seven AIM-traded companies and another £1.4 million of additional capital was provided to eight existing investments. The two largest AIM investments were in Music Festivals plc and Escher Group Holdings plc. Music Festivals focuses on the ownership, development, and production of music festivals including Festival Internacional de Benicassim in Spain and the Hop Farm Music Festival in Kent. Escher Group Holdings provides software for the global post office automation market.

Wood Street Microcap Investment Fund ("Wood Street") was established by ISIS in May 2009 to provide flexibility for the Baronsmead VCTs to invest in generally larger and more liquid non VCT qualifying AIM and Small Cap opportunities. At 30 September 2011 Baronsmead VCT 2 had invested £2.5 million through Wood Street into a portfolio of twenty nine companies and generated a positive return of 7.9 per cent over the year. The Manager receives no additional fee for managing this fund.

# Manager's Review

## Exits in the year under review

The four unquoted and five AIM full exits have delivered significant realised profits. The former were sold at an aggregate of 2.5 times cost yielding profits of £6.6m. Although profits from the AIM portfolio realisations were at a lower multiple of 1.3 times cost, this is encouraging in the context of quoted markets being lower by September 2011 than in September 2010.

The two unquoted companies that achieved sale prices of 4.8 times and 3.1 times their cost were Reed & Mackay and Quantix. Both companies had sustained growth through the 2008/09 recession.

- Reed & Mackay provides business travel management to mostly financial services and professional services firms and prides itself on its exceptional customer service. Over the five and a half years that the Baronsmead VCTs were shareholders, ISIS worked with the business to strengthen the senior management team and further develop the technological support for their travel consultants. The work-force more than doubled from the 140 employees at the outset.
- Quantix is an IT managed services provider, with services including database support and cloud services to enterprises throughout the UK. Since the Baronsmead VCTs invested in the company in 2007 it has tripled its client base and become a recognised leader in its field particularly for its innovative approach. Simon Goodenough, MD of Quantix said "We have really enjoyed having ISIS as a partner for the past four and a half years. The business has definitely benefitted from having such a supportive investor. They gave us the confidence to invest in the sales force and internal operations processes ahead of our original plan."

Getting Personal and Credit Solutions were also successfully sold during the year to 30 September 2011. Getting Personal is a leading internet retailer of personalised gifts which had grown rapidly since its launch 5 years ago and generated sales of £11.5 million in the year to April 2011. The business was profitably sold to Card Factory in July 2011. Baronsmead VCT 2 invested in Credit Solutions, a debt collection agency in 2005. The business was sold to arvato, a global business outsourcing partner in November 2010.

## Case studies

The four case studies highlighted in this Annual Report have shown sustained growth over the last three years.

- CableCom Networking Holdings supplies IT and communication services to the UK student accommodation and key worker sectors. The latter includes high quality accommodation around the BBC's new northern base at Salford.
- Nexus Vehicle Holdings, a leading provider of vehicle rental services to the UK corporate market, is growing both organically and by acquisition.
- Crew Clothing Holdings, an active and casual wear clothing brand, continues to grow its portfolio of sites, creating jobs as well as experiencing growth from its direct mail/website retailing
- Staffline Group is a specialist provider of blue-collar labour outsourcing for UK industry. The investment was made by the Baronsmead VCTs in 2000 and the company was floated on the AIM market in 2004. It is now a market leader in its field with turnover increasing from £29 million at the date of investment to £206 million in the year to 31 December 2010 with profits in that year of £7 million.

## OUTLOOK

The economic optimism of 2010 has diminished during 2011 with widespread concern about growth prospects. Many of the portfolio companies are now more experienced at handling the economic uncertainties. However this environment does not help to encourage the entrepreneurial spirit so vital for the development of the SME sector that will be key to the regeneration of the economy. It is simply much more difficult to evaluate the future and the associated risks.

As an active investment manager ISIS continues to work with our investee companies to help to steer them on an appropriate course in these difficult conditions. Few of the portfolio companies are reliant on bank finance and so the focus will be on sustaining sales growth whilst continuing to enhance customer service so as to build resilient businesses with continued momentum.

### ISIS EP LLP

Investment Managers  
18 November 2011

# Creating Shareholder Value

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

### Access to an attractive, diverse portfolio

Baronsmead VCT 2 plc gives shareholders access to a diverse portfolio of growth businesses, both unquoted Private Equity and AIM traded companies.

Each business has already demonstrated profitable success from its business model before investment to provide a degree of stability and foundation from which to build. Each business is led by entrepreneurial management teams that are aspiring to achieve above average growth from attractive and differentiated market positions.

### The Manager's approach to investing

The Manager, ISIS, aspires to select the best opportunities and has a distinctive selection criteria based on;

- Businesses that demonstrate elements of market leadership in their niche
- Management teams that can develop and deliver profitable and sustained growth
- The company being able to be an attractive asset appealing to a range of buyers at the appropriate time to exit

In order to ensure there is a strong pipeline of opportunities, ISIS invests in sector knowledge and networks. It then undertakes significant pro-active marketing to interesting unquoted targets in preferred sectors. This is building a database of businesses that are keen to maintain a relationship with ISIS ahead of possible investment opportunities.

### ISIS as an influential shareholder

For unquoted private equity investments, ISIS is an involved shareholder and representatives of the Manager join the investee Board. The role of ISIS is to ensure that strategy is clear, the business plan is well thought through and the management resources are in place to deliver profitable growth. 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. The investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

This year we have focused on four companies, three unquoted and one AIM-traded, which have demonstrated strong performance during the recent period of economic uncertainty and now, with the help of ISIS have emerged with a strong appetite and ability to deliver growth both through acquisition and organically.

# Creating Shareholder Value

## CABLECOM NETWORKING HOLDINGS LIMITED

*“Growth through innovation”*



CableCom supplies IT and communication managed services to the UK student accommodation and key worker sectors. CableCom has over time developed its offering to include the proactive management of a range of communications including broadband, telephony and TV to many of the leading providers of student accommodation and universities.

The company was founded in 1988, initially as a cabling and IT infrastructure business. Since 2004 the company has grown steadily and profitably via winning contracts with a number of large blue chip customers and gaining accreditation for the implementation of the latest data network technologies.

The Baronsmead VCT's invested £5.6 million in the management buy out in May 2007. Growth has continued to be a feature for the business since then despite the economic downturn.

Discussing the impact of the investment in May 2007, Managing Director Mark Burchfield commented,

*“In that first stage we were too inwardly focused and not spending enough time thinking about the end game. What ISIS gave us, even more valuable to us than the funding, was experience and a sense of perspective”.*

The accommodation providers, both at universities and private sector landlords, recognise the importance of the student experience. IT is a key requirement for the student demographic and this was particularly demonstrated with the demand for services such as Facebook and YouTube which significantly increased from the summer of 2007.

Looking forward, as well as strengthening its presence in the student accommodation market CableCom has recently moved into the high end residential sector, and won a significant new contract to deliver voice, broadband and TV services at Media City, the accommodation being built around the BBC's new northern base in Salford.

[www.cablecomnetworking.co.uk](http://www.cablecomnetworking.co.uk)

## NEXUS VEHICLE HOLDINGS LIMITED

*“Growth by acquisition”*

Nexus is an innovative provider of vehicle rental to corporate users and the public sector. At the heart of Nexus is a web based procurement system called IRIS that is fully integrated into both customers and suppliers. IRIS automates traditional back office functions to save time and money whilst also offering wide capability of supply choices.

In March 2008, the Baronsmead VCTs invested in the £11 million management buyout/management buy in led by highly experienced industry veteran Neil McCrossan who had previously been a VP at National Car Rental.

Seven months later, with support from ISIS, Nexus acquired the Vehicle Rental Management division of a larger fleet management business with a second investment from the Baronsmead VCTs. During the period under review the Baronsmead VCTs have provided a third investment to support the growth of Nexus, the acquisition of Adapted Vehicle Hire Limited, which specialises in renting adapted cars and vans throughout the UK to drivers with disabilities.



On the acquisitions, the Chairman of Nexus reflected,

*“In one move Nexus burst through the glass ceiling. It meant more revenue, more big clients but with no more overheads. It proved the scalability of Nexus way beyond our expectations”.*

Nexus demonstrates the ability of the Manager to back ambitious management teams with a well thought out strategy to grow value by selected acquisitions, supported by further investment from the Baronsmead VCTs.

[www.nexusrental.co.uk](http://www.nexusrental.co.uk)

# Creating Shareholder Value

## CREW CLOTHING HOLDINGS LIMITED

*“Sector knowledge and experience”*

Crew Clothing Holdings has its heritage in its south-coast roots, having been founded by Alastair Parker-Swift as a single retail site in Salcombe in 1993. The brand has since evolved into the fast growing premium active and casual wear sectors but has retained its unique heritage and position as the quintessentially English brand for customers who enjoy an active and outdoor social lifestyle.



The Baronsmead VCTs initially acquired a 25 per cent stake in the company in a £7.75 million fund raising in November 2006. The Manager has a successful track record of backing consumer businesses which brought about the initial contact with Crew Clothing Holdings.

Since investment Crew Clothing Holdings has grown significantly. With the support of ISIS, the business has grown from 34 to over 60 stores across the UK and it now has over 400 employees. Particular success has been gained from direct sales through catalogues and web with currently over 3.2 million catalogues mailed to customers every year.

The CEO Octavia Morley commented,

*“We are looking forward to continuing our strong growth with our partners at ISIS by developing the Crew brand to reach new customers both by opening stores across the UK and through our catalogue and online channels”.*

The depth of retail sector experience within the Manager helped both the investment decision and the subsequent development of Crew Clothing Holdings.

[www.crewclothing.co.uk](http://www.crewclothing.co.uk)

## STAFFLINE GROUP PLC

*“Supportive shareholder”*

Staffline is the leading provider of specialist blue-collar labour outsourcing solutions to UK industry, with particular expertise in food processing.

The original investment by the Baronsmead VCTs was in July 2000. This investment helped the business create new, innovative strategies including OnSite, which provides high quality temporary staff together with management, training and motivation leading to significantly increased operating efficiency for clients and therefore much greater profitability. Turnover grew from £29 million to £40 million prior to Staffline joining AIM in 2004. With the ongoing support of Baronsmead the company has continued to grow, with expected sales in 2012 of up to £304 million.

The Chairman, Andy Hogarth, commented,

*“Having Baronsmead as a long term involved and supportive shareholder has brought us real benefits. The investment team from ISIS understand and help us grow our business so we have built up a very close working relationship over 10 years”.*

The investment demonstrates the flexibility of Baronsmead being able to continue holding an investment after a business has achieved an IPO.



[www.staffline.co.uk](http://www.staffline.co.uk)

# Table of Investments and Realisations

## Investments in the year to 30 September 2011

Company	Location	Sector	Activity	Book cost £'000
<b>Unquoted investments</b>				
<i>New</i>				
Valldata Group Limited	Melksham	Business Services	Payment processing for not-for-profit sector	1,616
Arcas Investments Limited	London	Business Services	Company seeking to acquire businesses in the business services sector	1,000
Quest Venture Partners Limited	London	Business Services	Company seeking to acquire businesses in the business travel sector	1,000
HealthTech Innovation Partners Limited	London	Healthcare & Education	Company seeking to acquire businesses in the healthcare IT sector	1,000
Music Festivals plc Loan note	London	Consumer Markets	Owner and operator of live music festivals and event	400
<i>Follow on</i>				
Independent Living Services Limited	Alloa	Healthcare & Education	Care at home services	438
<b>Total unquoted Investments</b>				<b>5,454</b>
<b>AIM-traded &amp; listed investments</b>				
<i>New</i>				
Escher Group Holdings plc	Dublin	IT & Media	Postal automation software and services	614
Accumuli plc	Salford	IT & Media	Managed IT security	333
Tristel plc	Newmarket	Healthcare & Education	Infection control	217
Brady plc	Cambridge	IT & Media	Commodities trading software	176
Ubisense Group plc	Cambridge	IT & Media	Technology & services offering real time location system solutions	130
Music Festivals plc	London	Consumer Markets	Owner and operator of live music festivals and events	100
Hangar8 plc	Oxford	Business Services	Business jet management	44
<i>Follow on</i>				
Green Compliance plc	Cirencester	Business Services	Small business compliance	476
IS Pharma plc	Chester	Healthcare & Education	Specialist hospital medicines group	278
Electric Word plc	London	IT & Media	Business to business publisher	238
Netcall plc	St Ives	IT & Media	Communications software	157
Active Risk Group plc	Maidenhead	IT & Media	Risk management software	124
Tangent Communications plc	London	Business Services	Digital direct marketing	88
Driver Group plc	Rossendale	Business Services	Dispute resolution	64
STM Group plc	Gibraltar	Financial Services	Offshore trust and company administration services	22
<b>Total AIM-traded &amp; listed Investments</b>				<b>3,061</b>
<b>Collective investment vehicle</b>				
<i>Follow on</i>				
Wood Street Microcap Investment Fund				1,000
<b>Total collective investment vehicle</b>				<b>1,000</b>
<b>Total investments in the year</b>				<b>9,515</b>

# Table of Investments and Realisations

## Realisations in the year to 30 September 2011

Company		First investment date	30 September 2010 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return*
<b>Unquoted realisations</b>					
Quantix Limited	Full trade sale	Mar 07	1,984	920	3.1
Getting Personal Limited	Full trade sale	Jun 10	988	823	ND <sup>^</sup>
Reed & Mackay Limited	Full trade sale	Nov 05	4,247	761	4.8
Credit Solutions Limited	Full trade sale	May 05	1,253	40	1.8
Carnell Contractors Limited	Loan repayment	Mar 08	558	0	0.6
MLS Limited	Loan repayment	Jul 06	250	0	1.0
<b>Total unquoted realisations</b>			<b>9,280</b>	<b>2,544</b>	
<b>AIM-traded, listed, PLUS &amp; NYSE realisations</b>					
Chemistry Communications Group plc	Full trade sale	Dec 00	136	266	0.8
Mount Engineering plc	Full trade sale	Jun 07	413	39	1.2
Advanced Computer Software Group plc	Full market sale	Jul 08	494	31	2.1
Craneware plc	Full market sale	Sep 07	302	(4)	2.7
Alere Inc	Full market sale	Aug 09	150	(40)	0.8
<b>Total AIM-traded, listed, PLUS &amp; NYSE realisations</b>			<b>1,495</b>	<b>292</b>	
<b>Total realisations in the year</b>			<b>10,775</b>	<b>2,836<sup>†</sup></b>	

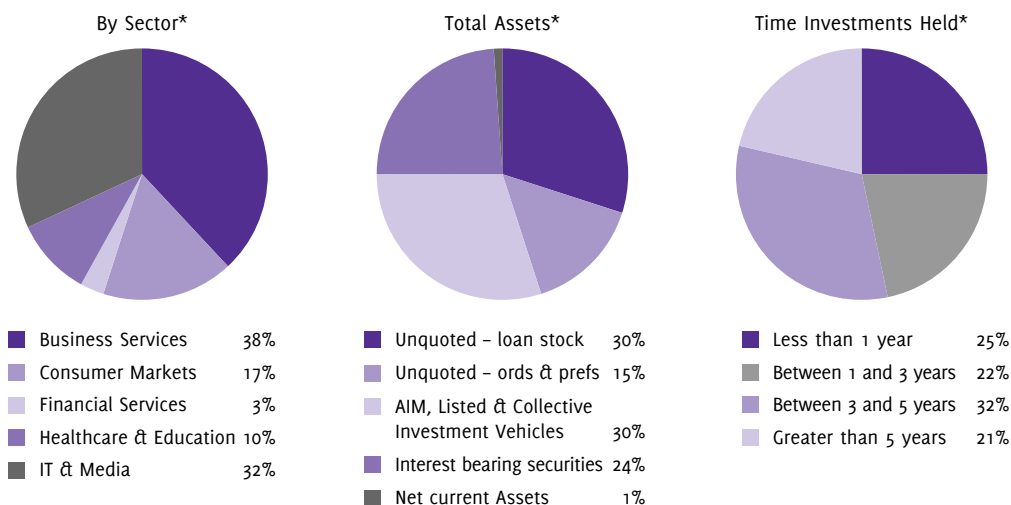
\* Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.

† Proceeds of £23,000 were also received in respect of Country Artists Limited and a further £6,000 in respect of MKM Group plc, both of which had been written off in a prior period.

<sup>^</sup> Not disclosed.

# Investment Portfolio

## Investment Classification at 30 September 2011



\*at 30 September 2011 valuation

Company	Sector	Book cost £'000	30 September 2010 Valuation £'000†	30 September 2011 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds*
<b>Unquoted</b>							
Nexus Vehicle Holdings Limited	Business Services	2,367	4,197	5,627	8.6	12.6	57.4
CableCom Networking Holdings Limited	IT & Media	1,381	2,200	3,686	5.7	10.6	48.0
Crew Clothing Holdings Limited	Consumer Markets	984	2,519	2,714	4.2	5.4	22.8
CSC (World) Limited	IT & Media	1,606	1,687	2,148	3.3	8.8	40.0
Kafévend Holdings Limited	Consumer Markets	1,252	1,786	2,039	3.1	15.8	66.5
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,777	1,777	2.7	10.5	44.0
Valldata Group Limited	Business Services	1,616	–	1,616	2.5	8.9	40.6
Inspired Thinking Group Limited	Business Services	796	979	1,275	2.0	5.0	22.5
MLS Limited	IT & Media	531	1,136	1,011	1.6	5.3	22.5
Arcas Investments Limited	Business Services	1,000	–	1,000	1.5	9.6	48.6
Quest Venture Partners Limited	Business Services	1,000	–	1,000	1.5	9.6	48.6
HealthTech Innovation Partners Limited	Healthcare & Education	1,000	–	1,000	1.5	9.6	48.6
Independent Living Services Limited	Healthcare & Education	1,599	1,755	980	1.5	16.2	68.1
TVC Group Limited	IT & Media	1,233	698	766	1.2	13.0	59.3
Empire World Trade Limited	Business Services	1,297	833	715	1.1	‡	‡
Surgi C Limited	Healthcare & Education	1,102	1,102	626	1.0	9.8	44.7
Playforce Holdings Limited	Business Services	1,033	1,024	512	0.8	9.7	44.0
Music Festivals plc Loan note	Consumer Markets	400	–	400	0.6	N/A	N/A
Kidsunlimited Group Limited	Business Services	113	113	113	0.2	N/A	N/A
Carnell Contractors Limited	Business Services	941	674	–	0.0	#	#
Xention Discovery Limited	Healthcare & Education	316	55	–	0.0	0.4	3.0
<b>Total Unquoted</b>		<b>22,990</b>	<b>22,535</b>	<b>29,005</b>	<b>44.6</b>		
<b>AIM</b>							
IDOX plc	IT & Media	1,038	1,276	2,440	3.8	3.2	9.6
Staffline Group plc	Business Services	249	1,534	2,013	3.1	4.2	8.4
Green Compliance plc	Business Services	882	656	870	1.3	4.0	19.8
Netcall plc	IT & Media	869	504	854	1.3	4.1	20.2
Jelf Group plc	Financial Services	761	548	792	1.2	1.4	6.3
Murgitroyd Group plc	Business Services	319	711	777	1.2	3.1	6.2
Escher Group Holdings plc	IT & Media	614	–	614	1.0	2.1	10.6
Tasty plc	Consumer Markets	469	364	607	0.9	2.5	17.1
Brulines Group plc	Business Services	646	621	482	0.8	1.8	9.6
Sinclair IS Pharma plc^	Healthcare & Education	524	–	446	0.7	0.5	2.5
Electric Word plc	IT & Media	616	450	429	0.7	5.2	28.8
FFastFill plc	IT & Media	251	288	427	0.7	0.9	6.1
Accumuli plc	IT & Media	333	–	384	0.6	3.6	20.7

^Sinclair IS Pharma plc shares received in exchange for IS Pharma plc shares following a merger of the two companies.

†The total investment valuation at 30 September 2010 per the table above does not agree to the audited accounts due to purchases and sales since that date.

\*All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 2.

‡Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

#Following a restructuring and partial redemption the funds no longer hold equity in Carnell Contractors Limited.



# Investment Portfolio

Company	Sector	Book cost £'000	30 September 2010 Valuation £'000†	30 September 2011 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds*
PROACTIS Holdings plc	IT & Media	619	563	341	0.5	5.4	26.2
Plastics Capital plc	Business Services	473	180	331	0.5	1.7	9.8
Kiotech International plc	Healthcare & Education	275	321	327	0.5	2.1	15.5
InterQuest Group plc	Business Services	310	309	281	0.4	1.8	7.0
EG Solutions plc	IT & Media	375	397	273	0.4	3.1	14.2
Quadnetics Group plc	Business Services	296	196	224	0.4	0.6	2.1
Real Good Food Company (The) plc	Consumer Markets	620	101	218	0.3	0.7	2.3
Sanderson Group plc	IT & Media	387	170	209	0.3	1.8	6.9
Brady plc	IT & Media	176	-	208	0.3	0.5	3.1
Driver Group plc	Business Services	503	120	194	0.3	3.5	16.2
Tangent Communications plc	Business Services	268	42	175	0.3	2.0	10.3
Dods Group plc	IT & Media	666	246	162	0.3	1.7	4.4
Stagecoach Theatre Arts plc	Consumer Markets	419	198	153	0.2	4.5	9.0
Tristel plc	Healthcare & Education	217	-	152	0.2	1.0	5.4
Ubisense Group plc	IT & Media	130	-	139	0.2	0.3	1.7
Active Risk Group plc	IT & Media	159	36	136	0.2	1.1	5.6
Autoclenz Holdings plc	Business Services	400	122	122	0.2	3.1	12.3
Begbies Traynor Group plc	Financial Services	231	425	110	0.2	0.6	2.5
Cohort plc	Business Services	179	74	105	0.2	0.3	1.4
Prologic plc	IT & Media	310	103	103	0.2	4.1	15.0
Music Festivals plc	Consumer Markets	100	-	91	0.2	1.0	5.2
STM Group plc	Financial Services	162	49	44	0.1	0.8	4.9
Bglobal plc	Business Services	176	218	42	0.1	0.4	2.5
AorTech International plc	Healthcare & Education	285	25	32	0.0	0.3	0.6
Hangar8 plc	Business Services	44	-	31	0.0	0.5	2.6
Colliers International UK plc	Financial Services	470	63	27	0.0	0.3	0.8
Clarity Commerce Solutions plc	IT & Media	50	48	26	0.0	0.3	6.0
Adventis Group plc	IT & Media	361	163	22	0.0	3.1	20.7
Zoo Digital Group plc	IT & Media	438	36	19	0.0	0.2	0.6
RTC Group plc	Business Services	355	37	11	0.0	2.8	5.7
Highams Systems Services Group plc	Business Services	197	6	5	0.0	0.3	1.0
<b>Total AIM</b>		<b>17,222</b>	<b>11,200</b>	<b>15,448</b>	<b>23.8</b>		
<b>Listed</b>							
Vectura Group plc	Healthcare & Education	578	615	1,031	1.6	0.4	1.3
Chime Communications plc	IT & Media	369	343	323	0.5	0.2	1.3
Marwyn Management Partners plc^^	Financial Services	525	-	117	0.2	0.3	1.8
Marwyn Value Investors Limited	Financial Services	64	59	45	0.1	1.3	6.0
<b>Total Listed</b>		<b>1,536</b>	<b>1,017</b>	<b>1,516</b>	<b>2.4</b>		
<b>Interest bearing securities</b>							
UK T-Bill 03/10/11		9,498	-	9,498	14.6		
BlackRock Cash Market OEIC		3,000	7,000	3,000	4.6		
JP Morgan Europe OEIC		3,000	4,800	3,000	4.6		
<b>Total interest bearing securities</b>		<b>15,498</b>	<b>11,800</b>	<b>15,498</b>	<b>23.8</b>		
<b>Collective investment vehicle</b>							
Wood Street Microcap Investment Fund		2,525	1,654	2,863	4.4		
<b>Total collective investment vehicle</b>		<b>2,525</b>	<b>1,654</b>	<b>2,863</b>	<b>4.4</b>		
<b>Total investments</b>		<b>59,771</b>	<b>48,206</b>	<b>64,330</b>	<b>99.0</b>		
<b>Net current assets</b>				<b>669</b>	<b>1.0</b>		
<b>Net assets</b>				<b>64,999</b>	<b>100.0</b>		

^^ Marwyn Management Partners plc shares received in exchange for Praesepe plc shares following a takeover.

† The total investment valuation at 30 September 2010 per the table above does not agree to the audited accounts due to purchases and sales since that date.



\* All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 2.

Unquoted, AIM & Listed Portfolio Concentration Analysis at 30 September 2011			
Investment ranking by valuation	Book cost £'000	Valuation £'000	% of portfolio
<b>Top Ten</b>	<b>12,712</b>	<b>25,335</b>	<b>55.1</b>
11 - 20	8,539	9,315	20.3
21 - 30	8,034	5,688	12.4
30+	12,463	5,631	12.2
<b>Total</b>	<b>41,748</b>	<b>45,969</b>	<b>100.0</b>

# Ten Largest Investments

The top ten investments by current value at 30 September 2011 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.

**1 NEXUS VEHICLE HOLDINGS LIMITED** Leeds Vehicle rental

		2010	2009	
All ISIS EP LLP managed funds		£ million	£ million	
First Investment:	February 2008			
Total Cost:	£9,500,000	33.0	19.2	
Total equity held:	57.38%	4.0	2.0	
Baronsmead VCT 2 only				
Cost:	£2,367,000			
Valuation:	£5,627,000	1.3	(0.3)	
Valuation basis:	Earnings Multiple	0.8	(0.2)	
% of equity held:	12.62%	73	32	



Year ended 30 September

(Source: Nexus Vehicle Holdings Limited, Financial Statements 2010)

www.nexusrental.co.uk

*Nexus is a supplier of car and van rental, providing a comprehensive procurement service for corporate users which delivers access to a huge range of rental suppliers and vehicle types from a single ordering point. The system is internet based and offers extensive capabilities at the same time as cost effective supply.*

**2 CABLECOM NETWORKING HOLDINGS LIMITED** Clevedon Internet access solutions

		2010	2009	
All ISIS EP LLP managed funds		£ million	£ million	
First Investment:	May 2007			
Total Cost:	£5,600,000	8.2	8.1	
Total equity held:	48.00%	0.9	0.9	
Baronsmead VCT 2 only				
Cost:	£1,381,000			
Valuation:	£3,686,000	(0.5)	(0.4)	
Valuation basis:	Earnings Multiple	0.5	0.9	
% of equity held:	10.56%	52	40	



Year ended 30 September

(Source: Cablecom Networking Holdings Limited, Audited Annual Report and Accounts 2010)

www.cablecomnetworking.co.uk

*Cablecom's primary business is to deliver and manage wired and wireless broadband communication services to high density accommodation such as student halls of residences. These managed services are provided through long term contracts. In addition the business installs networked communication systems for corporate customers.*

**3 CREW CLOTHING HOLDINGS LIMITED** London Multi-channel clothing retailer

		2010	2009	
All ISIS EP LLP managed funds		£ million	£ million	
First Investment:	November 2006			
Total Cost:	£3,955,000	34.6	29.3	
Total equity held:	22.79%	2.7	0.8	
Baronsmead VCT 2 only				
Cost:	£984,000			
Valuation:	£2,714,000	2.0	0.2	
Valuation basis:	Earnings Multiple	3.8	2.3	
% of equity held:	5.41%	284	273	



Year ended 31 October

(Source: Crew Clothing Holdings Limited, Consolidated Financial Statements 2010)

www.crewclothing.co.uk

*Crew is a British brand of men's and women's casual upmarket clothing and accessories. All products are designed in-house and its range is sold through its own estate of retail outlets and also through its own website and via various wholesale accounts.*

**4 IDOX PLC** London Local Authority IT Provider

		2010	2009	
All ISIS EP LLP managed funds		£ million	£ million	
First Investment:	June 2006			
Total Cost:	£3,015,000	31.3	32.2	
Total equity held:	9.60%	7.5	6.6	
Baronsmead VCT 2 only				
Cost:	£1,038,000			
Valuation:	£2,440,000	4.9	4.5	
Valuation basis:	Bid Price	31.0	28.2	
% of equity held:	3.21%	332	304	



Year ended 31 October

(Source: IDOX plc Annual Report and Accounts 2010)

www.investors.idoxgroup.com

*IDOX provides software and IT Services to the UK local government market. The group has a dominant market position in Planning Department Systems and a growing penetration of other local government functions.*

**5 CSC (WORLD) LIMITED** Pudsey, Leeds Structural engineering software

		2011	2010	
All ISIS EP LLP managed funds		£ million	£ million	
First Investment:	January 2008			
Total Cost:	£6,450,000	7.3	6.4	
Total equity held:	40.03%	2.3	1.9	
Baronsmead VCT 2 only				
Cost:	£1,606,000			
Valuation:	£2,148,000	(0.4)	(0.8)	
Valuation basis:	Earnings Multiple	(1.3)	(0.6)	
% of equity held:	8.81%	58	55	

Year ended 31 March

(Source: Cobco 867 Limited, Directors Report and Consolidated Financial Statements 2011)

www.cscworld.com

*CSC World Limited (CSC) is the UK market leading structural engineering software company based in Leeds. The Company supplies engineering calculation software, building design software and analysis packages including TEDDS, Fastrak and Orion to corporate businesses worldwide, with a substantial presence in South East Asia.*

# Ten Largest Investments

**6 KAFÉVEND HOLDINGS LIMITED** *Crawley* *Drinks vending*

All ISIS EP LLP managed funds

<b>First Investment:</b>	October 2005
<b>Total Cost:</b>	£5,024,000
<b>Total equity held:</b>	66.50%

Baronsmead VCT 2 only


<b>Cost:</b>	£1,252,000
<b>Valuation:</b>	£2,039,000
<b>Valuation basis:</b>	Earnings Multiple
<b>% of equity held:</b>	15.79%

Year ended 30 September

	2010	2009
	£ million	£ million
Sales	15.6	14.7
EBITA	2.0	1.9
Profit before tax	0.8	0.5
Net Assets	1.2	0.8
No. of Employees	95	98

(Source: Kafevend Holdings Limited, audited Annual Report and Accounts 2010)

*Kafevend provides a comprehensive hot drinks vending service across the UK. It supplies corporate customers with a range of vending machines typically on rental or lease terms, and then supplies consumables and machine servicing.*



www.kafevending.co.uk

**7 STAFFLINE GROUP PLC** *Nottingham* *Labour outsourcing*

All ISIS EP LLP managed funds

<b>First Investment:</b>	July 2000
<b>Total Cost:</b>	£498,000
<b>Total equity held:</b>	8.42%

Baronsmead VCT 2 only


<b>Cost:</b>	£249,000
<b>Valuation:</b>	£2,013,000
<b>Valuation basis:</b>	Bid price
<b>% of equity held:</b>	4.23%

Year ended 31 December

	2010	2009
	£ million	£ million
Sales	206.2	115.0
EBITA	7.8	3.7
Profit before tax	7.0	3.5
Net Assets	30.5	26.1
No. of Employees	319	243

(Source: Staffline Group plc Financial Statements 2010)

*Staffline Group is the leading provider of specialist blue-collar labour outsourcing solutions to UK industry, with particular expertise in food processing.*



www.staffline.co.uk

**8 FISHER OUTDOOR LEISURE HOLDINGS LIMITED** *St. Albans* *Supplying the cycling industry*

All ISIS EP LLP managed funds

<b>First Investment:</b>	June 2006
<b>Total Cost:</b>	£5,700,000
<b>Total equity held:</b>	44.00%

Baronsmead VCT 2 only


<b>Cost:</b>	£1,423,000
<b>Valuation:</b>	£1,777,000
<b>Valuation basis:</b>	Earnings Multiple
<b>% of equity held:</b>	10.45%

Year ended 31 January

	2010	2009
	£ million	£ million
Sales	26.5	22.2
EBITA	2.3	1.8
Profit before tax	0.7	0.1
Net Assets	1.4	1.0
No. of Employees	96	83

(Source: Fisher Outdoor Leisure Holdings Limited, Directors Report and Financial Statements 2010)

*Fisher is a key supplier of bicycle parts and accessories to chains, on-line retailers and independent shops. It has exclusive rights to promote and distribute some of the key international branded products within the UK and also has some own branded products.*



www.fisheroutdoor.co.uk

**9 VALldata GROUP LIMITED** *Wiltshire* *Process outsourcer to the charity sector*

All ISIS EP LLP managed funds

<b>First Investment:</b>	January 2011
<b>Total Cost:</b>	£6,475,000
<b>Total equity held:</b>	40.57%

Baronsmead VCT 2 only


<b>Cost:</b>	£1,616,000
<b>Valuation:</b>	£1,616,000
<b>Valuation basis:</b>	Cost
<b>% of equity held:</b>	8.92%

Year ended 31 March

	2011	2010**
	£ million	£ million
Sales	6.3	5.4
EBITA	0.9	0.8
Profit before tax	0.8	0.7
Net Assets	0.6	0.4
No. of Employees	292	234

\*\* restated.  
(Source: Valldata Services Limited, Directors Report and Financial Statements 2011)

*Wiltshire based Valldata is the UK's leading provider of outsourced donation processing and fulfilment services for the UK not-for-profit market, servicing over fifty of the largest UK charities. Every year Valldata manages over 8 million interactions with donors and efficiently process over £100 million of donated funds.*



www.valldata.co.uk

**10 INSPIRED THINKING GROUP LIMITED** *Birmingham* *Retail marketing services*

All ISIS EP LLP managed funds

<b>First Investment:</b>	May 2010
<b>Total Cost:</b>	£3,200,000
<b>Total equity held:</b>	22.50%

Baronsmead VCT 2 only

<b>Cost:</b>	£796,000
<b>Valuation:</b>	£1,275,000
<b>Valuation basis:</b>	Earnings Multiple
<b>% of equity held:</b>	4.95%

Year ended 31 August

	2010
	£ million
Sales	12.9
EBITA	0.5
Profit before tax	0.4
Net Assets	0.9
No. of Employees	96

(Source: Inspired Thinking Group Holdings, Directors Report and Consolidated Financial Statements for year ended 31 August 2010)

*Inspired Thinking Group (ITG) provides services that help large marketing departments operate more efficiently, including improved procurement of artwork and print management. The new funding was used to acquire Total Marketing Service, a provider of workflow management systems to marketing departments.*



www.inspiredthinkinggroup.com

# Board of Directors

As at 30 September 2011



## Clive Parritt (Chairman)

(Date of appointment 18 February 1998)

(age 68) 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 President of the Institute of Chartered Accountants in England and Wales and chairman of DiGiCo Europe Limited and of BG Consulting Group Limited as well as a director of London & Associated Properties PLC and F&C US Smaller Companies PLC. Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses.



## Gillian Nott OBE

(Date of appointment 18 February 1998)

(age 66) has in-depth experience of private investors as chief executive of ProShare (1994 – 1999). Previously she was responsible for the private equity portfolio at BP and has been on the board of the FSA. She is currently a non-executive director of BlackRock Smaller Companies Trust plc and Martin Currie Portfolio Investment Trust plc and is chairman of Witan Pacific Investment Trust plc as well as a deputy chairman of the Association of Investment Companies. She was also a director of Liverpool Victoria Friendly Society from May 2005 until May 2011. Gill is a non-executive director of Baronsmead VCT 3 and Baronsmead VCT 5.



## Howard Goldring

(Date of appointment 11 November 2009)

(age 61) is Chairman of Delmore Asset Management Limited, which manages investment portfolios and specialises in global asset allocation advice. He was previously director for Global Strategy at Allied Dunbar Asset Management (now Threadneedle Asset Management). Prior to that Howard was Allied Dunbar's lead UK equity director, managing the UK pension equity fund heading a team of UK fund managers. Howard was retained as a consultant for global strategy by Allied Dunbar for three years after he left to set up Delmore. He later served as a non-executive director of Liverpool Victoria Asset Management Limited from 1997 to 2003, specifically providing asset allocation advice. He is a non-executive director of London & Associated Properties PLC.



## Christina McComb

(Date of appointment 3 February 2011)

(age 55) is currently a non-executive director of Engage Mutual Assurance and Nexeon Ltd and is a Governor of Surbiton High School and Trustee of the Land Restoration Trust. She is also a director of C5 Capital Ltd, an investment company focused on the security sector.

Prior to joining the BVCT 2 Board, she was a director of Partnerships UK plc, a public private partnership, where she was responsible for PUK's investment activities and a director of the Shareholder Executive, an agency established in 2003 to manage the Government's shareholdings in publicly owned companies. Christina was formerly a director of 3i, a leading UK and European private equity company. In her 14 years at 3i, Christina undertook a number of investment and portfolio management roles and prior to this Christina was a member of HM Diplomatic Service.

As a fully listed Company, Baronsmead VCT 2 plc is required to comply with the Financial Reporting Council's UK Corporate Governance Code. This Code requires the Company to be headed by an effective Board of Directors who provide entrepreneurial leadership of the Company within a framework of prudent and effective controls.

The directors of a VCT and the investment manager are required under the listing rules 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.

# Report of the Directors

The Chairman's Statement on pages 4 to 6 and the Corporate Governance Statement on pages 26 and 27 form part of this Report of the Directors.

## Results and Dividends

The Directors present the fourteenth Report and audited financial statements of the Company for the year ended 30 September 2011.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	6,975
Final dividend for 2010 of 3.0p per ordinary share paid 14 January 2011	(2,077)
Interim dividend of 2.5p per ordinary share paid on 17 June 2011	(1,715)
Second interim dividend of 4.5p per ordinary share paid on 29 September 2011	(3,077)
<b>Total dividends paid during the year</b>	<b>(6,869)</b>

## Principal Activity and Status

The Company is registered in England as a Public Limited Company (Registration number 03504214). 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 which grants approval as a VCT.

## Business Review

The Business Review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 and best practice. The purpose of this review is to provide shareholders with a summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators ("KPIs") used to measure performance.

### Strategy for achieving objectives

Baronsmead VCT 2 plc is a tax efficient Company listed on the London Stock Exchange's main market for listed securities.

### Investment Objective

The investment objective of the Company is to achieve long-term investment returns for private investors, including tax-free dividends.

### 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.

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"), UK gilts and Treasury Bills.

### 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 HM Revenue and Customs. 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 qualifying industry sectors using a mixture of securities. 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.

# Report of the Directors

## 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. Currently, ISIS EP LLP ('the Manager') and its executive members are mandated to invest in unquoted 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 Board has delegated the management of the investment portfolio to the Manager. The Manager also provides or procures the provision of company secretarial, administrative, accounting and custodian services to the Company.

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 and 8 provides a review of the investment portfolio and of market conditions during the year.

## Principal risks, risk management and regulatory environment

The Board believes that the principal risks faced by the Company are:

- **Economic risk** – events such as an economic recession and movement in interest rates could affect smaller companies' valuations.
- **Loss of approval as a Venture Capital Trust** – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.
- **Investment and strategic** – an inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders. Therefore the Company's investment strategy is periodically reviewed by the Board which considers at each meeting the performance of the investment portfolio.
- **Regulatory** – the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. General changes in legislation, regulations or government policy could significantly influence the decisions of investors or impact upon the markets in which the Company invests.
- **Reputational** – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.
- **Operational** – failure of the Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- **Financial** – the Board has identified the Company's principal financial risks which are set out in the notes to the Financial Statements on pages 42 to 45. Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.
- **Market Risk** – investment in AIM traded, PLUS traded and unquoted companies by nature involve a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.
- **Liquidity Risk** – the Company's investments may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.
- **Competitive Risk** – retention of key personnel of the Manager is vital to the success of the Company. Appropriate incentives are in place to ensure retention of such personnel.

# Report of the Directors

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the FRC's "Internal Controls: Guidance to Directors".

Details of the Company's internal controls are contained in the Corporate Governance section on pages 26 and 27.

## Performance and key performance indicators ("KPIs")

The Board expects the Manager to deliver a performance which meets the objective of achieving long term investment returns, including 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 seven other generalist venture capital trusts. A review of the Company's performance during the financial period, the position of the Company at the year 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 Report and Accounts.

## Issue and Buy-Back of Shares

During the period the Company issued 2,068,746 ordinary shares, 9,756 of which were cancelled following their forfeiture on 16 May 2011. During the period the Company bought back 920,000 ordinary shares with a nominal value of 10p to be held in treasury, representing an aggregate cost of £813,262.50. 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 8,473,906 ordinary shares in treasury representing 11.04 per cent of the issued share capital as at 18 November 2011. The maximum number of shares held in treasury during the year was 8,473,906 shares representing 11.04 per cent of the issued share capital at the year end.

## Directors

Biographies of the Directors are shown on page 18.

On 3 February 2011 Ms C McComb was appointed as a Director and having been appointed during the year will submit herself for election as a Director at the forthcoming Annual General Meeting being the first General Meeting since her appointment.

Mr Goldring will, in accordance with the Articles of Association, retire by rotation and submit himself for re-election at the forthcoming Annual General Meeting.

As explained in more detail under Corporate Governance on pages 26 and 27 and in accordance with the provisions of the AIC Code of Corporate Governance, the Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as Mr C Parritt and Mrs G Nott have held office for a period of more than nine years, they will retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. Mrs G Nott who is a director of Baronsmead VCT 3 plc and Baronsmead VCT 5 plc is also required to seek annual re-election under the terms of the UKLA's Listing Rules.

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.

The interests of the Directors in the shares of the Company, at the beginning and at the end of the year, or date of appointment, if later, were as follows:

	30 September 2011	30 September 2010
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	85,316	73,941
Gillian Nott	48,462	23,341
Howard Goldring	-	-
Christina McComb*	-	-
<b>Total shares held</b>	<b>133,778</b>	<b>97,282</b>

\*Appointed on 3 February 2011

There have been no changes in the holdings of the Directors between 30 September 2011 and 18 November 2011.

No Director has a service contract with the Company.

All Directors are members of the Audit, Management Engagement and Remuneration, Nomination and Valuation 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.

# Report of the Directors

## Companies Act 2006 Disclosures

In accordance with Schedule 7 of the Large and Medium Size Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised in Note 11, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid;

The Board recognises the requirement under Section 417(5) of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies. As the Company has no employees or policies in these matters this requirement does not apply.

## Directors' Professional Development

When a new director is appointed he or she is provided with an induction programme that is held by the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in industry seminars.

## Management

ISIS EP LLP manages the investments for the Company. 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 is a 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 Manager also provides or procures 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. If the management agreement is terminated, the Manager is only entitled to the management fees paid to it and any interest due on unpaid fees.

In addition, the Manager receives an annual secretarial and accounting fee of £36,380 (linked to the movement in the UK Retail Price Index ("RPI")), subject to annual review, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual secretarial and accounting fee is subject to a maximum of £105,634 per annum (linked to the movement in RPI) subject to annual review.

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. The Board believes that the knowledge and experience accumulated by the Manager in the period since the launch of the first Baronsmead VCT in 1995 is reflected in processes which are designed to find, manage and realise good quality growth businesses.

## Directors' Indemnity

Directors and officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court.

Save for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third party indemnity provisions.

## Conflicts of Interest

The Directors have declared any conflicts or potential conflict of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed quarterly by the Board and when changes are notified. The Directors advise the Company Secretary and Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in discussions which relate to any of their conflicts.



# Report of the Directors

## Whistleblowing

The Board has considered the UK Corporate Governance Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their respective organisations.

## Co-investment Scheme

The Scheme is intended to help attract, retain and incentivise certain executive members of the Manager and reflects schemes which are used elsewhere in the private equity industry in the UK. It requires all the members of the Scheme to invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs (except those life sciences transactions where the Manager is not the lead investor).

The shares held by the members of the Co-investment Scheme in any portfolio company can only be sold at the same time as the investment held by the generalist Baronsmead VCTs. In addition, any prior ranking financial instruments, e.g. loan stock, held by the Baronsmead VCTs have to be repaid in full prior to any gain accruing to the ordinary shares.

As at 30 September 2011 forty-five executives of the Manager had invested a total of approximately £143,000 in the ordinary shares of twenty-six unquoted investments through the Co-investment Scheme alongside Baronsmead VCT 2 plc. The amount invested by Baronsmead VCT 2 in those twenty-six companies totals approximately £29.1 million. As at September 2011 eight of the investments in the scheme had been sold realising total proceeds of £18.9 million for Baronsmead VCT 2, and £1.0 million for the members of the Co-investment Scheme.

The Board reviews the operation of the Co-investment Scheme at each quarterly valuation meeting. The Co-investment Scheme was also independently reviewed during the period by Singer Capital Markets who confirmed that the investments were compliant with the Co-investment Scheme rules.

## Performance Incentive

A performance fee will not be payable to the Manager until the total return on shareholders' funds exceeds an annual threshold of base rate plus 2 per cent calculated on a compound basis. To the extent that the total return exceeds the threshold of base rate plus 2 per cent on shareholders' funds compounded over the relevant period then a performance fee will be paid to the Manager of 10 per cent. The amount of any performance fee which is paid in an accounting period shall be capped at 5 per cent of shareholders' funds for that period.

## ISIS Equity Partners – Arrangement Fees

During the year to 30 September 2011, ISIS EP LLP received net income of £37,500 (2010: £92,750) from investee companies in connection with arrangement fees and incurred abort fees of £15,246 (2010: £12,896), with respect to investments attributable to Baronsmead VCT 2.

## VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP ("PwC") as their VCT Tax Status Advisers to advise it on compliance with VCT requirements. PwC review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. PwC work closely with the Manager but report directly to the Board.

## Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. At 30 September 2011, there were no outstanding supplier invoices (2010: none).

## Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

## Substantial Interests in Share Capital

At 18 November 2011 the Company was not aware of any beneficial interests exceeding 3 per cent of the ordinary share capital in circulation.

## Going Concern

After making enquires, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 30 September 2011 the Company held cash balances & investments in UK Gilts and Money Market Funds with a combined value of £16,040,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buyback programme and dividend policy. The Company has no external loan finance in place and therefore is not exposed to any gearing covenants.

# Report of the Directors

## Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 10.45 am on Wednesday, 11 January 2012 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 46 to 49. The following notes provide an explanation of Resolutions 7 to 11 which together with Resolutions 1 to 6, will be proposed at the meeting. Resolutions 1 to 8 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent of the votes cast at the meeting and Resolutions 9 to 11 will be proposed as special resolutions requiring the approval of 75 per cent of the votes cast at the meeting. The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of the resolutions and unanimously recommends that you do so as well.

## Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and Resolution 7 to be proposed at the Annual General Meeting relates to such appointment.

## Authority to Allot Shares and Disapplication of Pre-Emption Rights

The authority proposed under Resolution 8 will authorise Directors, until the fifth anniversary of the passing of the resolution, to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £2,049,458 representing 30 per cent of the issued share capital (excluding treasury shares). Any consequent increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used to purchase ordinary shares of the Company.

The Directors intend to use this authority for the purposes described below under Resolution 9.

Resolution 9 renews and extends, subject to passing of Resolution 8, the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution will 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 ordinary shares for cash without pre-emption rights applying of (i) up to an aggregate nominal amount representing 10 per cent of the Company's issued share capital (excluding treasury shares), (ii) up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) from time to time pursuant to a dividend reinvestment scheme (which may be at a discount to NAV) and (iii) up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) from time to time (which may be at a discount to NAV) for allotments from time to time. 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 and the proceeds of which may be used, in whole or in part, to purchase shares in the Company.

## Treasury Shares

The Company currently holds 8,473,906 ordinary shares in treasury representing 11.04 per cent of the Company's issued ordinary shares. If Resolution 9 is passed, the Board will consider itself permitted by shareholders to re-issue ordinary shares out of treasury through a dividend reinvestment scheme or at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests 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. The resolution will also allow the Company to issue shares out of treasury without pre-emption rights applying.

Currently there is 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 is payable by qualifying shareholders.

# Report of the Directors

## Directors' Authority to Purchase Shares

The current authority of the Company to make market 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 10 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months after the passing of the resolution, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority. 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.

## Notice of General Meetings

The Board believes that it is in the best interests of shareholders of the Company to have the ability to call meetings on 14 days' clear notice should a matter require urgency. The Board is therefore proposing Resolution 11 to approve the reduction in the minimum notice period from 21 clear days to 14 clear days for all general meetings other than annual general meetings. The Directors do not intend to use less than 21 clear days notice unless immediate action is required.

By Order of the Board,

**ISIS EP LLP**

Secretary

100 Wood Street

London EC2V 7AN

18 November 2011

# Corporate Governance

This Corporate Governance Statement forms part of the Report of the Directors.

## Corporate Governance Codes

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in October 2010 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). A copy of the AIC Code can be found at [www.theaic.co.uk](http://www.theaic.co.uk). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 ('UK Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the UK Code can be found at [www.frc.org.uk](http://www.frc.org.uk).

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code) will provide better information to shareholders.

Except as disclosed below, the Company complied throughout the period with the recommendations of the AIC Code and the relevant provisions of UK Code. Since all the Directors are non-executive the provisions of the UK Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the UK Code relating to directors' remuneration are not relevant except in so far as they relate specifically to non-executive directors. For the reasons set out in the AIC Guide, and in the preamble to the UK Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

## Directors

In view of the requirement in the Articles of Association that all Directors be subject to retirement by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision B.2.3 of the UK Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years. The Board, of which Mr Parritt is Chairman, consists solely of non-executive Directors and Mrs Nott is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager.

As explained earlier, Mrs Nott is a director of Baronsmead VCT 5 plc and Baronsmead VCT 3 plc, both of which are managed by ISIS EP LLP. Mr Parritt and Mr Goldring are non-executive directors of London & Associated Properties Plc. Their fellow Directors consider that each demonstrates that they are independent in character and judgment and the existence of the common directorship or appointments to other companies managed by ISIS EP LLP does not impede their independence. The Board does not consider that a Director's tenure reduces their ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and diversity of background and knowledge. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director.

The Company has no executive Directors or employees.

## Division of Responsibilities

A management agreement between the Company and its Manager, ISIS EP LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

## Committees

Throughout the period a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee, the Nomination Committee and the Valuation Committee.

The Audit Committee, chaired by Mr Goldring, comprises the full Board and operates within clearly defined terms of reference. The duties of the Audit Committee include reviewing the annual and interim accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly.

The Management Engagement and Remuneration Committee, chaired by Mrs Nott, comprises the full Board and reviews the appropriateness of the Manager's appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee, chaired by Mrs Nott, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills, experience, knowledge and diversity within the Board.

During the period an independent recruitment consultant was engaged to identify potential candidates to replace Mr Jillings who resigned on 28 September 2010. Following a series of interviews Ms McComb was appointed to the Board on 3 February 2011.

Principle 7 of the AIC Code and Principle B.6 of the UK Code recommends that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. It is the Board's policy to evaluate the performance of the Board, committees and individual Directors through an assessment process, led by the Chairman. The performance of the Chairman is evaluated by the other Directors under the leadership of the Senior Independent Director.

# Corporate Governance

During the period the performance of the Board, committees and individual Directors was evaluated through an assessment process. The Directors met as a group to discuss performance during the year, the existing corporate governance arrangements and areas where the Board and individual directors could develop.

The Valuation Committee, chaired by Mr Parritt, comprises the full Board and meets quarterly to consider in detail the valuations of the unquoted investments in the Company's portfolio.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

The following table sets out the number of Board and Committee meetings held during the year to 30 September 2011 and the number of meetings attended by each Director.

	Board of Directors (6 meetings held)		Audit & Risk Committee (2 meetings held)		Management Engagement and Remuneration Committee (1 meeting held)		Nomination Committee (1 meeting held)		Valuation Committee (4 meetings held)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
	Clive Parritt	6	6	2	2	1	1	1	1	4
Gillian Nott	6	5	2	2	1	1	1	1	4	4
Howard Goldring	6	6	2	2	1	1	1	1	4	3
Christina McComb*	4	4	1	1	-	-	-	-	2	2

\* Appointed on 3 February 2011

## 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 forthcoming Annual General Meeting on 11 January 2012 can be found in the Notice of Meeting on pages 46 to 49. Shareholders seeking to communicate with the Board can do so by contacting the Investor Relations Manager in the first instance.

## Internal Controls

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed. The process adopted is one whereby the Board identifies all of the risks to which the Company is exposed including among others market risk, investment risk, operational and regulatory risks which are recorded on a risk register. The controls employed to mitigate these risks are identified and the residual risks are rated taking into account the impact of the mitigating factors.

This register is updated at least twice a year and reports produced to the board highlighting any material changes in the nature of each risk and where necessary corrective action taken. A formal annual review of the risks and related controls is carried out by the Audit Committee.

These procedures are designed to manage, rather than eliminate, risk and by their nature can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to a benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function and has concluded that the systems and procedures employed by the Manager, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

# Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors, KPMG Audit Plc, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report'.

## Board of Directors and their Fees

The Board which is profiled on page 18 consists solely of independent non-executive directors and considers at least annually the level of the Board's fees, in accordance with the AIC Code of Corporate Governance. The Company Secretary provides information on comparative levels of directors' fees to the Board in advance of each review.

The Board concluded following a review of the level of Directors' fees for the forthcoming year, and taking account of the fees paid to other directors in the Company's sector, that, to reflect the increase in the amount and quality of work required of directors of venture capital trusts it was appropriate to increase the Directors' fees, broadly in line with inflation, which as at 10 November 2011 was in the region of 5%. Accordingly the Directors' fees were increased to £17,325 and the Chairman's fee was increased to £26,000 with effect from 1 October 2011.

The Management Engagement and Remuneration Committee comprises all the Directors of the Company and is chaired by Mrs G Nott. As the Company has no executive directors, the Management Engagement and Remuneration Committee meets, at least annually, to consider the Directors to review the remuneration and terms of appointment of the Manager.

## 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 ending 30 September 2012 and subsequent years.

## Directors' Service Contracts

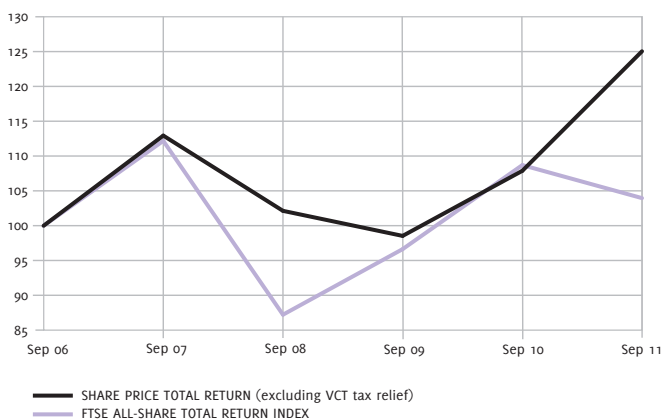
It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment. The terms of Directors' appointments provide that Directors should retire and be subject to election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. In accordance with the UK Corporate Governance Code, Directors who have served on the Board for more than nine years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment. Below is a table which sets out each Directors' date of appointment and due date for re-election/election.

Director	Date of original appointment	Due date for re-election/election
C Parritt	18 February 1998	AGM 2012
G Nott	18 February 1998	AGM 2012
H Goldring	11 November 2009	AGM 2012
C McComb	3 February 2011	AGM 2012

## 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 Manager through the management agreement, as referred to in the 'Report of the Directors'. The graph below compares, for the five years ended 30 September 2011, 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 Year (Audited)

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

	Fees 2011 £	Fees 2010 £
C Parritt	24,750	23,500
G Nott	16,500	15,500
H Goldring±	16,500	13,751
C McComb*	10,873	-
G Jillings†	-	15,500
N Timpson^	-	3,100
<b>Total</b>	<b>68,623</b>	<b>71,351</b>

± Appointed on 11 November 2009

\* Appointed on 3 February 2011

† Resigned on 28 September 2010

^ Retired on 14 December 2009

Approved by the Board of Directors and signed by:

### Gillian Nott

Chairman of the Management Engagement and Remuneration Committee  
18 November 2011

# Statement of Directors' Responsibilities

## Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards ("UK GAAP").

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk). Visitors to the website should be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

On behalf of the Board,

**Clive A Parritt**

Chairman

18 November 2011

# Independent Auditor's Report

## Independent Auditor's Report to the members of Baronsmead VCT 2 plc

We have audited the financial statements of Baronsmead VCT 2 plc for the period ended 30 September 2011 set out on pages 31 to 45. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 26 and 27 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern;
- the part of the Corporate Governance Statement on pages 26 and 27 relating to the Company's compliance with the nine provisions of the June 2010 Corporate Governance Code for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration.

**Simon Pashby (Senior Statutory Auditor)**  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
Registered Auditor  
Edinburgh  
18 November 2011



# Income Statement

For the year ended 30 September 2011

	Notes	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
Unrealised gains on investments	8	-	3,346	3,346	-	4,924	4,924
Realised gains on investments	8	-	2,865	2,865	-	1,875	1,875
Income	2	2,425	-	2,425	2,218	-	2,218
Investment management fee	3	(323)	(970)	(1,293)	(304)	(910)	(1,214)
Other expenses	4	(368)	-	(368)	(360)	-	(360)
<b>Profit on ordinary activities before taxation</b>		<b>1,734</b>	<b>5,241</b>	<b>6,975</b>	<b>1,554</b>	<b>5,889</b>	<b>7,443</b>
Taxation on ordinary activities	5	(379)	379	-	(354)	354	-
<b>Profit on ordinary activities after taxation</b>		<b>1,355</b>	<b>5,620</b>	<b>6,975</b>	<b>1,200</b>	<b>6,243</b>	<b>7,443</b>
<b>Return per ordinary share:</b>							
<b>Basic</b>	7	<b>1.98p</b>	<b>8.21p</b>	<b>10.19p</b>	<b>1.77p</b>	<b>9.19p</b>	<b>10.96p</b>

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 year.

There are no recognised gains or losses other than those disclosed in the Income Statement, therefore a separate statement of total recognised gains or losses has not been prepared.

# Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2011

	Notes	2011 £'000	2010 £'000
<b>Opening shareholders' funds</b>		<b>63,673</b>	61,215
Profit for year		6,975	7,443
Gross proceeds of share issues	11/12	2,111	-
Purchase of shares for treasury	12	(813)	(1,225)
Expenses of share issue and buybacks	12	(78)	(6)
Dividends paid	6	(6,869)	(3,754)
<b>Closing shareholders' funds</b>		<b>64,999</b>	63,673

The accompanying notes are an integral part of these statements.

# Balance Sheet

As at 30 September 2011

	Notes	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Investments	8	64,330	61,739
<b>Current assets</b>			
Debtors	9	586	479
Cash at bank and on deposit		542	1,868
		1,128	2,347
<b>Creditors (amounts falling due within one year)</b>	10	(459)	(413)
<b>Net current assets</b>		669	1,934
<b>Net assets</b>		64,999	63,673
<b>Capital and reserves</b>			
Called-up share capital	11	7,679	7,473
Share premium account	12	14,404	12,573
Capital redemption reserve	12	9,254	9,254
Capital reserve	12	28,849	27,590
Revaluation reserve	12	4,559	5,378
Revenue reserve	12	254	1,405
<b>Equity shareholders' funds</b>	13	64,999	63,673
<b>Net asset value per share</b>			
– Basic	13	95.15p	94.79p
– Treasury	13	94.16p	93.42p

The financial statements on pages 31 to 33 were approved by the Board of Directors on 18 November 2011 and were signed on its behalf by:

CLIVE A PARRITT FCA (Chairman)

The accompanying notes are an integral part of this balance sheet.

# Cash Flow Statement

For the year ended 30 September 2011

	Notes	2011 £'000	2010 £'000
<b>Operating activities</b>			
Investment income received		2,082	1,991
Deposit interest received		-	4
Other interest received		63	-
Investment management fees		(1,286)	(1,202)
Other cash payments		(371)	(373)
Net cash inflow from operating activities	15	488	420
<b>Capital expenditure and financial investment</b>			
Purchases of investments		(52,054)	(58,627)
Disposals of investments		55,846	63,391
Net cash inflow from capital expenditure and financial investment		3,792	4,764
<b>Dividends</b>			
Equity dividends paid		(6,869)	(3,754)
Net cash (outflow)/inflow before financing		(2,589)	1,430
<b>Financing</b>			
Gross proceeds of share issues		2,111	-
Purchase of shares for treasury		(770)	(1,225)
Expenses on share issue and buybacks		(78)	(21)
Net cash inflow/(outflow) from financing		1,263	(1,246)
<b>(Decrease)/increase in cash in the year</b>		<b>(1,326)</b>	<b>184</b>
<b>Reconciliation of net cash flow to movement in net cash</b>			
(Decrease)/increase in cash		(1,326)	184
Opening cash position		1,868	1,684
<b>Closing cash position</b>	14	<b>542</b>	<b>1,868</b>

The accompanying notes are an integral part of this statement.

# Notes to the Accounts

## 1. Accounting policies

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### (a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in January 2009 and on the assumption that the Company maintains VCT status.

The Company is no longer an investment company as defined by Section 833 of the Companies Act 2006, as investment company status was revoked on 10 March 2003 in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below.

#### *Presentation of the Income Statement*

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. Net Revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 of the Income Tax Act 2007.

### (b) Valuation of investments

Purchases or sales of investments are recognised at the date of transaction.

Investments are valued at fair value. For AIM-traded & listed securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

In respect of unquoted investments, these are fair valued by the Directors using methodology which is consistent with the International Private Equity and Venture Capital Valuation ("IPEV") guidelines. This means investments are valued using an earnings multiple, which has a discount or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset value basis.

Gains and losses arising from changes in the fair value of the investments are included in the Income Statement for the period as a capital item. Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal.

### (c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the terms of unquoted loan stocks only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment.

Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

### (d) Expenses

All expenses are recorded on an accruals basis.

### (e) Revenue/capital

The revenue column of the Income Statement includes all income and expenses. The capital column accounts for the realised and unrealised profit and loss on investments and the proportion of management fee charged to capital.

### (f) Issue costs

Issue costs are deducted from the share premium account.

### (g) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or the right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

### (h) Capital reserves

#### (i) *Capital Reserve*

Gains and losses on realisation of investments of a capital nature are dealt with in this reserve. Purchase of the Company's own shares to be either held in treasury or cancelled are also funded from this reserve. 75 per cent of management fees are allocated to the capital reserve in accordance with the Board's expected split between long term income and capital returns.

#### (ii) *Revaluation Reserve*

Changes in fair value of investments, are dealt with in this reserve.

# Notes to the Accounts

## 2. Income

	2011 £'000	2010 £'000
<b>Income from investments†</b>		
UK franked	331	290
UK unfranked	1,502	1,413
UK unfranked – reinvested	–	201
Redemption premium	528	310
	<b>2,361</b>	<b>2,214</b>
<b>Other income‡</b>		
Deposit interest	1	4
Other income	63	–
<b>Total income</b>	<b>2,425</b>	<b>2,218</b>
<b>Total income comprises:</b>		
Dividends	333	291
Interest	2,092	1,927
	<b>2,425</b>	<b>2,218</b>
<b>Income from investments:</b>		
AIM-traded & listed securities	347	319
Unquoted securities	2,014	1,895
	<b>2,361</b>	<b>2,214</b>

†All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

‡Other income on financial assets not designated fair value through profit or loss.

## 3. Investment management fee

	2011 £'000	2010 £'000
Investment management fee	1,293	1,214
Performance fee	–	–
	<b>1,293</b>	<b>1,214</b>

For the purposes of the revenue and capital columns in the Income Statement, the management fee has been allocated 25 per cent to revenue and 75 per cent to capital, in line with the Board's expected long term return in the form of income and capital gains respectively from the Company's investment portfolio.

The management agreement may be terminated by either party giving twelve months notice of termination. The Manager, ISIS EP LLP, receives a fee of 2 per cent per annum of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee if at the end of any calculation period, the total return on shareholders' funds exceeds the threshold of UK base rate plus 2 per cent on shareholders' funds (calculated on a compound basis). The Manager is entitled to 10 per cent of the excess. The amount of any performance fee which is paid in respect of a calculation period shall be capped at 5 per cent of shareholders' funds at the end of the period.

In addition, the Manager receives an annual secretarial and accounting fee of £36,380 (linked to the movement in the UK Retail Price Index ("RPI")), subject to annual review, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual secretarial and accounting fee is subject to a maximum of £105,634 per annum (linked to the movement in RPI) subject to annual review. It is chargeable 100 per cent to revenue.

Amounts payable to the Manager at the year end are disclosed in note 10.

# Notes to the Accounts

## 4. Other expenses

	2011 £'000	2010 £'000
Directors' fees	69	71
Secretarial and accounting fees	121	110
Remuneration of the auditors and their associates:		
– audit	21	20
– other services supplied pursuant to legislation (interim review)	5	5
– other services supplied relating to taxation	5	5
Other	147	149
	<b>368</b>	<b>360</b>

The Chairman received £24,750 per annum (2010: £23,500). Each of the other Directors received £16,500 per annum (2010: £15,500).

The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The Directors consider that the auditors were best placed to provide such services.

All figures include irrecoverable VAT, where applicable. The Company is not registered for VAT.

## 5. Tax on ordinary activities

### 5a. Analysis of charge for the year

	2011 £'000	2010 £'000
UK corporation tax	-	-

The income statement shows the tax charge allocated between revenue and capital.

### 5b. Factors affecting tax charge for the year

The tax charge for the year is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
Profit on ordinary activities before tax	1,734	5,241	6,975	1,554	5,889	7,443
Corporation tax at 27% (2010: 28%)	468	1,415	1,883	435	1,649	2,084
Effect of:						
Non-taxable dividend income	(89)	-	(89)	(81)	-	(81)
Non-taxable gains	-	(1,676)	(1,676)	-	(1,904)	(1,904)
Brought forward losses utilised	-	(118)	(118)	-	(99)	(99)
Tax charge/(credit) for the year (note 5a)	<b>379</b>	<b>(379)</b>	<b>-</b>	<b>354</b>	<b>(354)</b>	<b>-</b>

At 30 September 2011 the Company had surplus management expenses of £834,592 (2010: £1,268,823) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

# Notes to the Accounts

## 6. Dividends

	Revenue £'000	2011 Capital £'000	Total £'000	Revenue £'000	2010 Capital £'000	Total £'000
<b>Amounts recognised as distributions to equity holders in the year:</b>						
<b>For the year ended 30 September 2011</b>						
- First interim dividend of 2.5p per ordinary share paid on 17 June 2011	515	1,200	1,715	-	-	-
- Second interim dividend of 4.5p per ordinary share paid on 29 September 2011	1,299	1,778	3,077	-	-	-
<b>For the year ended 30 September 2010</b>						
- First interim dividend of 2.5p per ordinary share paid on 7 June 2010	-	-	-	338	1,354	1,692
- Final dividend of 3.0p per ordinary share paid on 14 January 2011	692	1,385	2,077	-	-	-
<b>For the year ended 30 September 2009</b>						
- Final dividend of 3.0p per ordinary share paid on 30 December 2009	-	-	-	138	1,924	2,062
	<b>2,506</b>	<b>4,363</b>	<b>6,869</b>	<b>476</b>	<b>3,278</b>	<b>3,754</b>

## 7. Returns per share

The 10.19p return per ordinary share (2010: 10.96p) is based on the net profit on ordinary activities after taxation of £6,975,000 (2010: £7,443,000) and on 68,443,702 ordinary shares (2010: 67,917,384), being the weighted average number of shares in issue during the year.

## 8. Investments

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investment prices quoted in an active market.
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices.
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

# Notes to the Accounts

## 8. Investments (continued)

	2011 £'000	2010 £'000
<b>Level 1</b>		
Interest bearing securities	15,498	14,994
Investments traded on AIM	15,448	12,781
Investments listed on LSE	1,516	1,017
Investment traded on NYSE	-	150
Investment traded on PLUS	-	136
	<b>32,462</b>	<b>29,078</b>
<b>Level 2</b>		
Collective investment vehicle (Wood Street Microcap Investment Fund)	2,863	1,654
<b>Level 3</b>		
Unquoted investments	29,005	31,007
	<b>64,330</b>	<b>61,739</b>

	2011 £'000	2010 £'000
Equity shares	29,441	25,696
Loan notes	19,391	20,994
Preference shares	-	55
Fixed income securities	15,498	14,994
	<b>64,330</b>	<b>61,739</b>



# Notes to the Accounts

## 8. Investments (continued)

	Level 1					Level 2	Level 3	Total £'000
	Interest bearing securities £'000	Traded on AIM £'000	Listed on LSE £'000	Traded on NYSE £'000	Traded on PLUS £'000	Collective investment vehicle £'000	Unquoted £'000	
Opening book cost	14,994	15,405	1,011	157	500	1,525	22,769	56,361
Opening unrealised (depreciation)/appreciation	-	(2,624)	6	(7)	(364)	129	8,238	5,378
Opening valuation	14,994	12,781	1,017	150	136	1,654	31,007	61,739
Movements in the year:								
Reclassification in the year	-	(525)	525	-	-	-	-	-
Purchases at cost	42,539	3,061	-	-	-	1,000	5,454	52,054
Sales – proceeds	(42,035)	(1,303)	-	(110)	(402)	-	(11,824)	(55,674)
– realised gains/(losses) on sales	-	95	-	(40)	266	-	2,544	2,865
Unrealised gains/(losses) realised during the year	-	489	-	(7)	(364)	-	4,047	4,165
Increase/(decrease) in unrealised appreciation	-	850	(26)	7	364	209	(2,223)	(819)
Closing valuation	<b>15,498</b>	<b>15,448</b>	<b>1,516</b>	-	-	<b>2,863</b>	<b>29,005</b>	<b>64,330</b>
Closing book cost	15,498	17,222	1,536	-	-	2,525	22,990	59,771
Closing unrealised (depreciation)/appreciation	-	(1,774)	(20)	-	-	338	6,015	4,559
	<b>15,498</b>	<b>15,448</b>	<b>1,516</b>	-	-	<b>2,863</b>	<b>29,005</b>	<b>64,330</b>

During the year the Company incurred brokerage costs on purchases of £3,100 (2010: £4,000) and brokerage costs on sales of £2,500 (2010: £3,500) in respect of Ordinary Shareholder interests.

The gains and losses included in the above table have all been recognised in the Income Statement on page 31.

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the unquoted investments. The inputs flexed in determining the reasonably possible alternative assumptions include the earnings stream and marketability discount. Applying the downside alternatives the value of the unquoted investments would be £3.0 million or 10.3 per cent lower. Using the upside alternative the value would be increased by £1.9 million or 6.6 per cent.

## 9. Debtors

	2011 £'000	2010 £'000
Prepayments and accrued income	586	307
Amounts due from escrow	-	172
	<b>586</b>	<b>479</b>

## 10. Creditors (amounts falling due within one year)

	2011 £'000	2010 £'000
Management, performance, secretarial and accounting fees due to the Manager	357	348
Amounts due to brokers (for buybacks)	43	-
Other creditors	59	65
	<b>459</b>	<b>413</b>

# Notes to the Accounts

## 11. Called-up share capital

### Allotted, called-up and fully paid:

<i>Ordinary shares</i>	<i>£'000</i>
74,730,194 ordinary shares of 10p each listed at 30 September 2010	7,473
2,068,746 ordinary shares of 10p each issued during the year	207
9,756 ordinary shares of 10p each cancelled during the year	(1)
<b>76,789,184 ordinary shares of 10p each listed at 30 September 2011</b>	<b>7,679</b>
7,553,906 ordinary shares of 10p each held in treasury at 30 September 2010	(755)
920,000 ordinary shares of 10p each repurchased during the year and held in treasury	(92)
<b>8,473,906 ordinary shares of 10p each held in treasury at 30 September 2011</b>	<b>(847)</b>
<b>68,315,278 ordinary shares of 10p each in circulation at 30 September 2011</b>	<b>6,832</b>

As at 18 November 2011 the Company's issued share capital was 76,789,184 ordinary shares, of which 8,473,906 shares were held in treasury. The number of shares in circulation was 68,315,278 ordinary shares carrying one vote each.

### Treasury shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and allowed the Company to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Shareholders have previously approved a resolution permitting the Company to issue shares from treasury at a discount to the prevailing NAV if the Board considers it in the best interests of the Company to do so. However, treasury 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. 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. Such issues would be captured under the terms of the Prospectus Directive and subject to the annual cap of Euro 5 million on funds raised before requiring a full prospectus, although they would not be considered by HM Revenue & Customs to be new shares entitling the purchaser to initial income tax relief.

The Company does not have any externally imposed capital requirements.

Where shares are bought back but not cancelled the share capital remains unchanged. The NAV is calculated by using the number of shares in issue less those bought back and held in treasury.

# Notes to the Accounts

## 12. Reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
At 1 October 2010	12,573	9,254	27,590	5,378	1,405
Gross proceeds of shares issues	1,905	-	-	-	-
Purchase of shares for treasury	(74)	-	(4)	-	-
Expenses of share issue and buybacks	-	-	(813)	-	-
Reallocation of prior year unrealised gains	-	-	4,165	(4,165)	-
Realised on disposal of investments*	-	-	2,865	-	-
Net increase in value of investments*	-	-	-	3,346	-
Management fee capitalised*	-	-	(970)	-	-
Revenue return on ordinary activities after taxation*	-	-	-	-	1,355
Dividends paid in the year	-	-	(4,363)	-	(2,506)
Taxation relief from capital expenses*	-	-	379	-	-
At 30 September 2011	14,404	9,254	28,849	4,559	254

At 30 September 2011, reserves distributable by way of dividend amounted to £27,309,000 (2010: £26,006,000) comprising the capital reserve, revenue reserve and the net unrealised loss on those level one investments whose prices are quoted in an active market and deemed readily realisable in cash.

\* The total of these items is £6,975,000, which agrees to the total profit on ordinary activities after taxation on page 31.

## 13. Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2011 number	2010 number	2011 pence	2010 pence	2011 £'000	2010 £'000
Ordinary shares (basic)	68,315,278	67,176,288	95.15	94.79	64,999	63,673
Ordinary shares (treasury)	76,789,184	74,730,194	94.16	93.42	72,308	69,811

Basic net asset value per share is based on net assets at the year end, and on 68,315,278 (2010: 67,176,288) ordinary shares, being the respective number of shares in circulation at the year end.

The treasury net asset value per share as at 30 September 2011 included ordinary shares held in treasury valued at the mid share price of 86.25p at 30 September 2011 (2010: 81.25p).

## 14. Analysis of changes in cash

	2011 £'000	2010 £'000
Beginning of year	1,868	1,684
Net cash (outflow)/inflow	(1,326)	184
As at 30 September 2011	542	1,868

# Notes to the Accounts

## 15. Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	6,975	7,443
Gains on investments	(6,211)	(6,799)
Increase in debtors	(279)	(24)
Increase in creditors	3	1
Income reinvested	-	(201)
Net cash inflow from operating activities	488	420

## 16. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company as at 30 September 2011 (2010: nil).

## 17. Significant interests

There are no interests of 20 per cent or more of any class of share capital in any underlying holdings in investee companies.

Further information on the significant interests is disclosed on pages 14 and 15.

## 18. Financial instruments and associated risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on AIM.

Fixed asset investments held (see note 8) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are fair valued by the Directors (using rules consistent with IPEV guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance sheet.

The Company's investing activities expose it to various types of risk that are associated with financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments held at the balance sheet date and the risk management policies employed by the Company are discussed in notes 19 to 22.

# Notes to the Accounts

## 19. Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined in note 18. The management of market risk is part of the investment management process and is typical of private equity investment. The portfolio is managed in accordance with policies and procedures in place as described in more detail in the Report of the Directors on pages 19 to 25, with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM traded companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 14 and 15. An analysis of investments between debt and equity instruments is disclosed in note 8.

26 per cent (2010: 23 per cent) of the Company's investments are listed on the London Stock Exchange or traded on AIM. A 5 per cent increase in stock prices as at 30 September 2011 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £848,000 (2010: £704,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

45 per cent (2010: 49 per cent) of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of earnings multiples derived from either listed companies with similar characteristics or recent comparable transactions. Therefore the value of the unquoted element of the portfolio may also be indirectly affected by price movements on the listed exchanges. A 5 per cent increase in the valuations of unquoted investments at 30 September 2011 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,450,000 (2010: £1,550,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

## 20. Interest rate risk

At 30 September 2011 £9,498,000 (2010: £3,194,000) fixed rate securities were held by the Company. As a result, the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

At 30 September 2011 £19,391,000 (2010: £20,994,000) fixed rate loan notes were held by the Company. The weighted average effective interest rate for the loan note securities is 9.59 per cent as at 30 September 2011 (2010: 10.87 per cent). Due to the complexity of the instruments and uncertainty surrounding timing of redemption the weighted average time for which the rate is fixed has not been calculated.

The table below summarises weighted average effective interest rates for the fixed interest-bearing financial instruments:

### Fixed rate

	2011			2010		
	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate						
Fixed interest instruments	9,498	0.43	3	3,194	0.51	57

# Notes to the Accounts

## 20. Interest rate risk (continued)

### Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within an interest bearing money market open ended investment company ("OEIC"). The benchmark rate which determines the interest payments received on interest bearing cash balances is the bank base rate which was 0.5 per cent as at 30 September 2011 (2010: 0.5 per cent).

	2011 £'000	2010 £'000
<b>Floating rate</b>		
Floating rate instruments ("OEIC")	6,000	11,800
Cash at bank and on deposit	542	1,868
	<b>6,542</b>	<b>13,668</b>

## 21. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

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

	2011 £'000	2010 £'000
Investments in floating rate instruments	6,000	11,800
Investments in fixed rate instruments	9,498	3,194
Cash at bank and on deposit	542	1,868
Interest, dividends and other receivables	586	479
	<b>16,626</b>	<b>17,341</b>

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock.

Credit risk arising on floating rate instruments is mitigated by investing in money market open ended investment companies managed by BlackRock and JP Morgan Chase ("JPM"). Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 19.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

All assets of the Company which are traded on a recognised exchange are held by JPM, the Company's custodian. The Board monitors the Company's risk by reviewing the custodian's internal controls reports as described in the Corporate Governance section on pages 26 and 27.

Substantially all of the cash held by the Company is held by JPM. The Board monitors the Company's risk by reviewing regularly JPM's internal controls reports as previously described. Should the credit quality or the financial position of JPM deteriorate significantly the Investment Manager will seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 30 September 2011 or 30 September 2010. No individual investment exceeded 14.6 per cent of the net assets attributable to the Company's shareholders at 30 September 2011 (2010: 11.0 per cent).

# Notes to the Accounts

## 22. Liquidity risk

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The Company's financial instruments include investments in unquoted companies which are not traded in an organised public market as well as AIM traded equity investments both of which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures as described in the Report of the Directors on page 20. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 30 September 2011 these investments were valued at £16,040,000 (2010: £16,862,000).

## 23. Related parties

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Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 3, 4 and 10, and fees paid to the Directors as disclosed in note 4. In addition, the Manager operates a Co-investment Scheme, detailed in the Report of the Directors on page 20, whereby employees of the Manager are entitled to participate in certain unquoted investments alongside the Company.

# Notice of Annual General Meeting

**Notice is hereby given that the fourteenth Annual General Meeting of Baronsmead VCT 2 plc ("the Company") will be held at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS, on Wednesday, 11 January 2012 at 10:45 am for the purposes of considering and, if thought fit, passing the following resolutions, resolutions 1 to 8 being proposed as ordinary resolutions and resolutions 9 to 11 being proposed as special resolutions.**

1. To receive the Report and Financial Statements for the year ended 30 September 2011.
2. To approve the Directors' Remuneration Report for the year ended 30 September 2011.
3. To re-elect Mrs G Nott as a director.
4. To re-elect Mr C A Parritt as a director.
5. To re-elect Mr H Goldring as a director
6. To elect Ms C McComb as a director.
7. To re-appoint KPMG Audit Plc as the independent auditors and to authorise the directors to determine their remuneration.
8. THAT, in substitution for all subsisting authorities to the extent unused, the directors of the Company be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £2,049,458 during the period commencing on the passing of this resolution and expiring on the fifth anniversary of the date of the passing of his resolution (unless previously revoked, varied, renewed 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 shares to be allotted or Rights to be granted after such expiry.
9. THAT, subject to the passing of resolution 8 set out in the notice of this meeting, the directors of the Company be and are hereby empowered, pursuant to sections 570 and 573 of the Act to allot equity securities as defined in section 560 of the Act for cash pursuant to the authority given pursuant to resolution 8 set out in the notice of this meeting, or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
  - (a) the allotment of equity securities up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) pursuant to one or more offers for subscription;
  - (b) the allotment of equity securities up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) from time to time which may be at a discount to NAV pursuant to any dividend reinvestment scheme operated by the Company; and
  - (c) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (a) and (b) above) up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) from time to time which may be at a discount to NAV.

In each case where such proceeds of issue may be used to purchase shares in the Company and the power conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting) or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2013, 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 the directors shall be entitled to allot equity securities pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.



# Notice of Annual General Meeting

10. THAT the Company be and hereby is empowered to make market purchases within the meaning of section 693(4) of the Act of ordinary shares of 10p each in the capital of the Company ("Ordinary Shares") provided that:
- (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 10, 240,460 or, if lower, such number of Ordinary Shares as shall equal 14.99 per cent of the issued Ordinary Shares as at the date of such purchase (excluding any Ordinary Shares held in treasury);
  - (b) the minimum price which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;
  - (c) the maximum price which may be paid for an Ordinary Share is an amount equal to the higher of (i) 105 per cent of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Share is to be purchased; and (ii) the amount stipulated by Article 5(1) of the Buyback and Stabilisation Regulation 2003;
  - (d) the authority conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, the conclusion of the annual general meeting to be held in 2013, unless such authority is renewed prior to such time; and
  - (e) the Company may make a contract to purchase Ordinary Shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such Ordinary Shares.
11. THAT a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By Order of the Board

**ISIS EP LLP**

Secretary

100 Wood Street

London EC2V 7AN

18 November 2011

# Notice of Annual General Meeting

1. No Director has a service contract with the Company.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), Members must be registered in the Register of Members of the Company at 6pm on 9 January 2012 (or, in the event of any adjournment, 48 hours before the time of the adjourned meeting). Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Company's registrars, Computershare Investor Services PLC, helpline on 0870 703 0137 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares all in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ so as to be received not later than 48 hours before the time appointed for the meeting or any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.
6. A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company. On a vote on a resolution on a show of hands, each authorised person has the same voting rights as the corporation would be entitled to. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same share:
  - (a) If they purport to exercise the power in the same way as each other, the power is treated as exercised in that way; or
  - (b) If they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.
7. Any person receiving a copy of this Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person") should note that the provisions in Notes 3 and 4 above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only Shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.
8. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
9. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the proxy card. The termination of the authority of a person to act as a proxy must be notified to the Company in writing. Amended instructions must be received by Computershare Investor Services PLC by the deadline for receipt of proxies.

Should a member wish to appoint a proxy electronically, such proxy appointment must be registered electronically at [www.eproxyappointment.com](http://www.eproxyappointment.com), so as to be received not later than 48 hours before the time appointed for the meeting or any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed to take the poll. To vote electronically, you will be asked to provide the Control Number, Shareholder Reference Number (SRN) and PIN, details of which are contained in the personalised proxy card enclosed. This is the only acceptable means by which proxy instructions may be submitted electronically.
10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website ([www.euroclear.com/CREST](http://www.euroclear.com/CREST)). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (3RA50) by the latest time for receipt of proxy appointments specified in note 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.
11. As at 18 November 2011 the Company's issued share capital consists of 76,789,184 Ordinary Shares of which 8,473,906 are held in treasury. The total number of voting rights in the Company is 68,315,278.
12. A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk).
13. Any electronic address provided either in this Notice or in any related documents (including the form of proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

# Notice of Annual General Meeting

14. Section 319A of the Companies Act 2006 requires the directors to answer any question raised at the AGM which, relates to the business of the meeting, although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

By attending the meeting, members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the Company's shares made at the meeting.

15. Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:
- (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or
  - (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

- (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise);
- (b) it is defamatory of any person; or
- (c) it is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

# Shareholder Information and Contact Details

## BARONSMEAD

The Board has a policy of regular and open communication with shareholders based around quarterly statutory reporting. Electronic communication was introduced following new legislation in the 2006 Companies Act and the Baronsmead VCT 2's website is [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk).



The Manager for Baronsmead VCT 2 plc is **ISIS EP LLP**.

For information on asset allocations, dividend policies, investment process, DRIP mechanism, share price movements, the share price discount and selling shares please contact:

**By email:** [michael.probin@isisep.com](mailto:michael.probin@isisep.com) ; [margaret.barff@isisep.com](mailto:margaret.barff@isisep.com)

**By telephone:** Michael Probin 020 7506 5796; Margaret Barff 020 7506 5630.

**Internet:** [www.isisep.com](http://www.isisep.com)

For comparative performance data of Baronsmead VCT and other generalist VCTs please visit the AIC performance statistics page at: [www.theaic.co.uk/statistics-publications](http://www.theaic.co.uk/statistics-publications)



The Registrar for Baronsmead VCT 2 is Computershare Investors Services PLC.

To change the details held by Computershare in respect of your shareholding, including change of address, bank account details, joining the DRIP, please contact them as follows:

**Baronsmead shareholder helpline: 0870 703 0137**

*(calls charged at geographical and national rates)*

The Baronsmead shareholder helpline is available on UK business days between Monday and Friday, 8.30a.m. to 5p.m. If you wish to speak to someone please press '0'. The automated self-service system is available 24 hours a day, 7 days a week.

You will need your Shareholder Reference Number (SRN), which for security reasons you should always keep confidential and is available on your share certificate and dividend tax voucher, in order to:

- 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

**Managing online your own shareholding via the Investor Centre:** [www.investorcentre.co.uk](http://www.investorcentre.co.uk)

Computershare's secure website, Investor Centre, enables shareholders to manage their shareholding online. Using your SRN you will be able to do the following:

- **Holding Enquiry** – view balances, values, history, payments and reinvestments
- **Payments Enquiry** – view your dividends and other payment types
- **Address Change** – change your registered address
- **Bank Details Update** – choose to receive your dividend payments directly into your bank account instead of by cheque
- **e-Comms sign-up** – choose to receive email notification when your shareholder communications become available instead of paper communications
- **Outstanding Payments** – reissue payments using our online replacement service
- **Downloadable Forms** – including dividend mandates, stock transfer, dividend reinvestment and change of address forms
- **By email** – [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

# Shareholder Information and Contact Details

## Share Price

The Company's ordinary shares are listed on the London Stock Exchange. The mid-price of the Company's ordinary shares is given daily in the *Financial Times* in the Investment Companies section of the London Share Service. Share price information can also be obtained from the link on the company's website and many financial websites.

## 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 in the shares of Baronsmead VCT 2 plc are:

Matrix Corporate Capital LLP      020 3206 7000

Singer Capital Markets              020 3205 7500

Winterflood                              020 3100 0251

## Breakdown of Shareholdings

The shareholdings of ordinary shares as at 30 September 2011 (excluding shares held in Treasury) are analysed as follows:

Range	Ordinary shares			
	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1 – 2000	207	5.67	303,143	0.39
2001 – 5000	877	24.01	3,233,963	4.21
5001 – 10000	911	24.94	6,884,406	8.97
10001 – 25000	955	26.14	15,667,514	20.40
25001 – 50000	450	12.32	16,077,294	20.94
50001 – 100000	179	4.90	12,299,611	16.02
More than 100001	74	2.03	22,323,253	29.07
<b>Total</b>	<b>3,653</b>	<b>100.00</b>	<b>76,789,184</b>	<b>100.00</b>

## Financial Calendar

11 January 2012                      Fourteenth Annual General Meeting

May 2012                                Announcement and posting of interim report for the six months to 31 March 2012

November 2012                        Announcement and posting of final results for year to 30 September 2012

## Additional Information

The information provided in this report has been produced in order 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.

# Corporate Information

## Directors

Clive Anthony Parritt (Chairman)<sup>^</sup>  
Gillian Nott OBE<sup>†</sup>  
Howard Goldring\*  
Christina McComb

## Secretary

ISIS EP LLP

## Registered Office

100 Wood Street  
London EC2V 7AN

## Investment Manager

ISIS EP LLP  
100 Wood Street  
London EC2V 7AN  
FPPE LLP (liquid assets only)  
100 Wood Street  
London EC2V 7AN

## Investor Relations

Michael Probin  
Tel: 020 7506 5796

## Registered Number

03504214

## Registrars and Transfer Office

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Tel: 0870 703 0137

## Brokers

Matrix Corporate Capital LLP  
One Vine Street  
London W1J 0AM

## Auditors

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

## Solicitors

Martineau  
No 1 Colmore Square  
Birmingham B4 6AA

## VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Website

[www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk)

\* Chairman of the Audit Committee

<sup>†</sup> Chairman of Management Engagement and Remuneration Committee, Chairman of the Nomination Committee and Senior Independent Director

<sup>^</sup> Chairman of the Valuation Committee

## Warning to Shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers for free company reports.

Please note that it is very unlikely that either the Company or the Company Registrar, Computershare, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment "advice".

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company or the Registrar at the numbers provided on page 50.



