

Baronsmead VCT 2 plc

2004

Interim report for the
six months ended
30 September 2004



Investment Objective

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

Investment Policy

- To invest primarily in a diverse portfolio of established and profitable UK unquoted companies which are seeking to raise expansion capital or are the subject of a management buy out or buy in.
- Investments include companies raising new share capital on the Alternative Investment Market.
- Selective investments can also be made in companies which demonstrate their ability to transform and adapt their activities through the use of technology innovation.

Shareholder Policies

Since launch in 1998, the Board of Directors has sought to communicate regularly and openly with Shareholders. Dialogue has been achieved principally through questionnaires, workshops and General Meetings. By understanding Shareholders' priorities, the Board has been able to initiate a number of policies, which provide greater choice for Shareholders and address their expressed objectives. The website, www.baronsmeadvct2.co.uk, contains both annual and interim statutory reports as well as other generic VCT publications.

Shareholder choice

This is achieved by offering Shareholders the ability to:

- increase their shareholding through top-up offers
- reinvest their dividends, enabling those whose personal investment objective is capital growth to achieve this in a tax efficient manner
- sell their shares through the operation of a buy-back policy

Buy-back policy

Purchases of shares will be made within guidelines established from time to time by the Board. This power will be exercised only if in the opinion of the Board a repurchase would be in the interests of shareholders as a whole. Historically the repurchase price has represented an approximate 10 per cent discount to Net Asset Value per share.

Dividend policy

Since launch the average annual tax-free dividend paid to Shareholders has been 4.5p per share (equivalent to a pre-tax return of 6.7p per share for a higher rate taxpayer). The Board wishes to sustain this level of average dividends if possible, but this depends primarily on the level of realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Dividend reinvestment

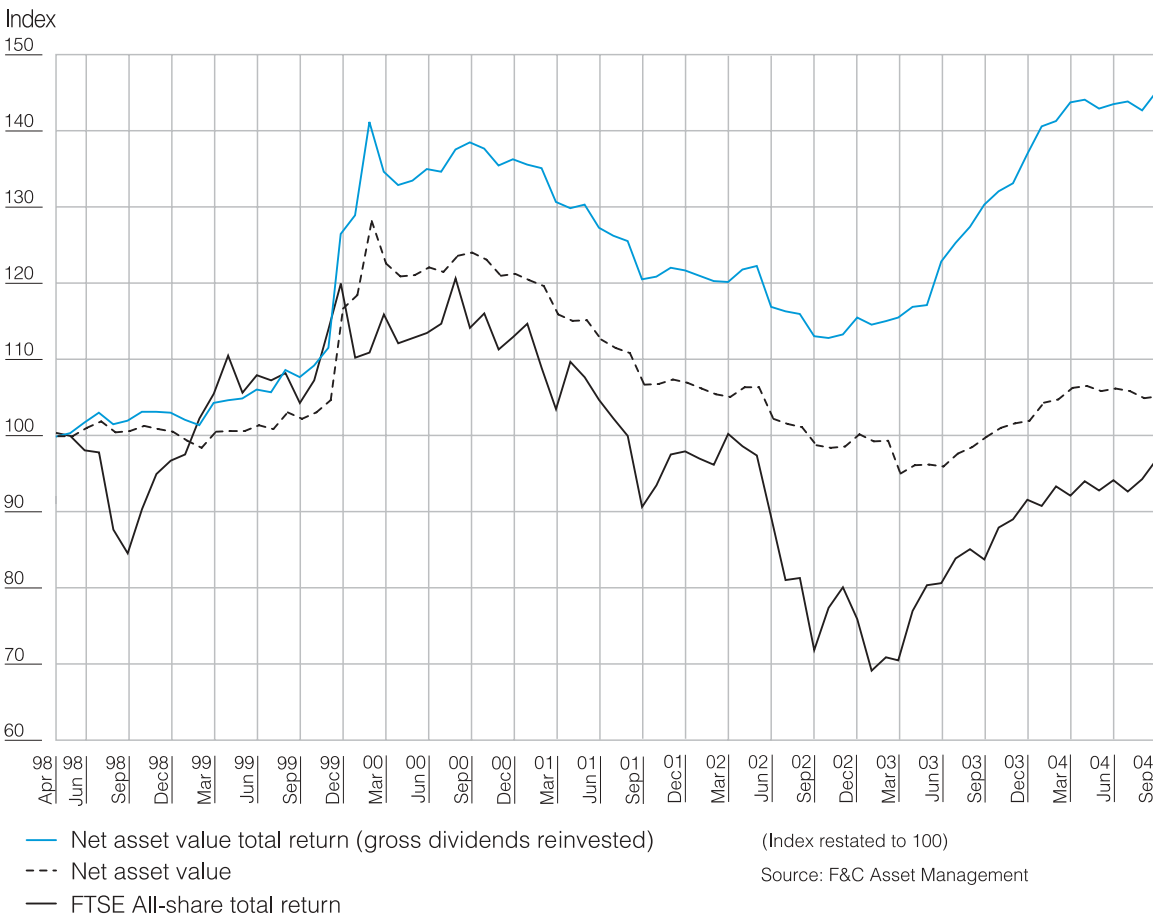
The Directors offer to Shareholders the opportunity to reinvest their dividends by subscribing for new shares in the Company. The Dividend Reinvestment Scheme enables Shareholders to increase their shareholding without incurring dealing costs, issue costs or stamp duty. These shares should qualify for the VCT tax reliefs that are applicable to subscriptions for new shares and form part of each Shareholder's current annual limit of £200,000 for investing in VCTs.

Financial Highlights

- NAV per ordinary share increased by 1.0 per cent from 101.88p to 102.93p before deduction of dividends
- After dividends of 2.3p per ordinary share, NAV per ordinary share was 100.63p
- NAV total return since launch in 1998 is 45.1 per cent which compares with a fall of 3.6 per cent in the FTSE All-Share total return over the same period
- £3.8m was invested in 10 new qualifying companies taking the total portfolio to 63 companies
- C share prospectus was issued in September 2004 to raise up to £20 million and, as at 15 November 2004, £9.7 million had been raised

Baronsmead VCT 2 plc

Net asset value, net asset value total return and FTSE All-share total return



Performance summary

| | 30 September 2004 | 31 March 2004 | % change |
|---|----------------------|------------------|----------|
| Ordinary shares – capital values | | | |
| Net asset value per share (after dividends) | 100.63p | 101.88p | (1.2) |
| Share price (mid market) | 92.00p | 90.00p | 2.2 |
| Discount (%) | (8.6) | (11.7) | – |
| Net asset value total return in period* | 1.0 | 24.3 | – |
| Net asset value total return since launch* | 45.1 | 43.6 | – |
| Total assets (net of issue expenses) | £42.4m | £41.6m | 1.8 |

| | Six months ended 30 September 2004 | Six months ended 30 September 2003 |
|--------------------------------------|---|---|
| Dividend | | |
| Revenue dividends per ordinary share | 0.8p | 0.6p |
| Capital dividends per ordinary share | 1.5p | 5.3p |

*Net asset value total return assuming gross dividends reinvested

Investment Classification

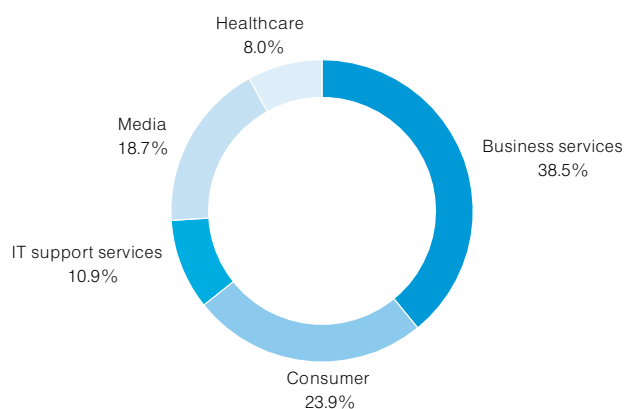
Portfolio Diversified by Sector . . .

[Company Investments](#)

[Total Assets](#)

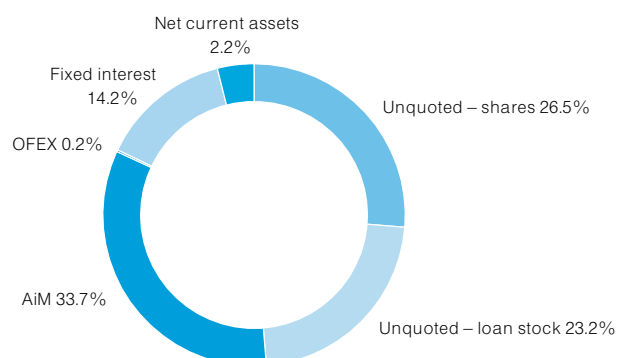
(excluding fixed interest portfolio)

Sector Analysis by value as at 30 September 2004



. . . and by Asset Classification

Market Analysis by value as at 30 September 2004



Chairman's Statement

Performance review

During the six months to 30 September 2004, the Net Asset Value per ordinary share increased by 1.0 per cent from 101.88p to 102.93p before paying an interim dividend of 2.3p per share. This will be paid on 16 December 2004 to shareholders on the register on 26 November 2004 and consists of 0.8p per share from net revenue and 1.5p distributed from capital profits realised primarily from the sale of shares in SDL and Inter Link Foods. The FTSE All-Share Index (total return) increased 5.1 per cent over the same period.

Baronsmead VCT 2 has now generated a total return of 45.1 per cent for founder shareholders who invested in 1998 (assuming dividends of 31.2p were reinvested and added to the change in NAV). Over the same period the FTSE All-Share Index (total return) has fallen by 3.6 per cent. If the VCT tax reliefs on subscription were taken into account the total return for shareholders would be significantly higher.

Good initial progress has been achieved and £9.7 million had been raised by 15 November 2004 under the C share offer to raise up to £20 million, which is set to close on 28 January 2005 unless fully subscribed beforehand. This new capital could expand the capital base of the Company to over £60 million and allow an increased spread across a larger number of investments and the business cycle.

Investment portfolio

The overall health of the portfolio remains sound as judged by the trend in the profitability of these companies. The percentage of companies experiencing either increased or steady profits was 83 per cent, which is marginally ahead of the position at March 2004.

Investment of £3.8 million was made in the period across ten new investee companies of which four were unquoted and the balance were AIM-traded. Investment in three existing companies totalled £0.4 million.

| Company | Location | Sector | Activity | Investment Cost (£'000) |
|-----------------------------------|-------------------|---------------------|---------------------------|-------------------------|
| Unquoted investments | | | | |
| Ardana* | Edinburgh | Healthcare | Drug Discovery | 87 |
| Country Artists | Stratford on Avon | Consumer | Giftware products | 517 |
| Domantis | Cambridge | Healthcare | Drug discovery | 237 |
| Occam | Bath | Business services | Integrated data services | 420 |
| SLR | Aylesbury | Business services | Environmental consultancy | 494 |
| Spaform* | Portsmouth | Consumer | Portable spa baths | 156 |
| Vectura* | Chippenham | Healthcare | Drug delivery | 112 |
| | | | | 2,023 |
| AIM-traded investments | | | | |
| Adventis | London | Media | Advertising agency | 281 |
| Begbies Traynor | Manchester | Business services | Insolvency specialists | 525 |
| Business Direct | Rugby | Business services | Secure remote lockers | 348 |
| MKM | Chester | Business services | Sales promotion | 284 |
| Prologic | Berkhamsted | IT Support services | Fashion software | 310 |
| Scott Tod | Powys | Business services | ATM operators | 421 |
| | | | | 2,169 |
| Total investment in period | | | | 4,192 |

(*further round)

Following the active sale of unquoted companies in 2003, the Manager took the opportunity to sell the shares in SDL and three AIM shareholdings. The sale of these investments realised profits of £820,000 and represented a return of 2.6 times original cost. Total realised profits for the period, including deferred consideration, amounted to £856,000. (See Note on Investments on page 8).

| Realisations | | First investment date | Cost £'000 | Proceeds £'000 | Multiple return |
|------------------|-------------|-----------------------|------------|----------------|-----------------|
| SDL (full list) | Market sale | 1998 | 181 | 507 | 2.8 |
| Inter Link Foods | Part sale | 1998 | 249 | 644 | 2.6 |
| Huveaux | Part sale | 2003 | 23 | 55 | 2.4 |
| neuTec | Part sale | 2002 | 75 | 142 | 1.9 |
| Totals | | | 528 | 1,348 | 2.6 |

Chairman's Statement

The portfolio totalled 63 investee companies at 30 September 2004 and qualifying shareholdings represented some 85 per cent of the capital raised prior to 31 March 2002 comfortably exceeding the 70 per cent required by VCT legislation.

The strongest advances in unquoted valuations came from the investments in Americana, RLA Media, Brownsword and AssA while provisions increased for Spaform and Hawksmere. Job Opportunities was placed into administration in July 2004 and BodyCare was sold after the period end at a loss.

Investment Management

The Board wishes to ensure that the Manager continues to have one of the best investment teams in the VCT/private equity UK market place. To support this objective and after seeking appropriate advice from the Company's advisers it has been agreed that a co-investment scheme be introduced. This we believe will help to attract, recruit, retain and incentivise the team at ISIS Equity Partners as it continues to grow and evolve.

Meeting shareholders needs

Two new top-up issues of shares were made available to existing ordinary shareholders in April and June 2004, the former providing shareholders with the opportunity to defer capital gains prior to the change in legislation. In all 1.7 million ordinary shares were issued at an average price of 106p per share. During the six-month period 485,000 shares were also bought back at an average price of 91p per share.

Computershare were appointed registrars in July 2004 and to date their capacity to handle relatively complex transactions has aided more effective shareholder communication.

The web site for Baronsmead VCT 2 is now easier to access (www.baronsmeadvct2.co.uk) and contains a number of shareholder communications including the presentations at the annual general meeting and shareholder workshop as well as our statutory reports and fact sheets. It also contains published generic information to aid financial planning for shareholders including:

- The fourth edition of the guide 'A closer look at VCTs'
- A dividend reinvestment scheme document that explains how the 40 per cent income tax relief on subscription (available for the tax years 2004/05 and 2005/06) makes this scheme attractive and
- A magazine 'VCT Forum – informed choices'.

Outlook

Although a significant amount of new capital is being raised by other VCTs, the family of four Baronsmead VCTs is well placed to compete for attractive unquoted and AIM propositions. By co-investing together and also at times with other institutional clients of ISIS Equity Partners, Baronsmead VCT 2 is able to focus on larger unquoted transactions. Similarly Baronsmead VCT 2 can also co-invest into individual AIM investments thereby making it a more significant institutional shareholder.

Baronsmead VCT 2 is likely to become the largest VCT in the market if the C share offer is fully subscribed and the Manager has one of the largest private equity teams operating in the VCT sector. This makes us a key source of capital for companies seeking finance in our specialist sectors and further strengthens the quality of our deal flow. We are well on the way to creating a portfolio of 80 unquoted and AIM-traded companies.

Clive Parritt

Chairman

16 November 2004

Investment Portfolio

| Company | Sector | Cost £'000 | Valuation £'000 | % of Total Assets less Current Liabilities |
|--|---------------------|---------------|--------------------|---|
| Unquoted | | | | |
| Americana | Consumer Markets | 698 | 2,129 | 5.02 |
| Fat Face | Consumer Markets | 50 | 1,932 | 4.56 |
| Art Group | Media | 1,576 | 1,903 | 4.49 |
| Martin Audio | Business Services | 968 | 1,881 | 4.44 |
| RLA Media | Media | 886 | 1,822 | 4.30 |
| Brownsword | Business Services | 1,081 | 1,691 | 3.99 |
| ASSA | Business Services | 1,371 | 1,506 | 3.55 |
| kidsunlimited | Business Services | 481 | 1,056 | 2.49 |
| Searchspace | IT Support Services | 500 | 1,005 | 2.37 |
| Kondor | Consumer Markets | 1,000 | 900 | 2.12 |
| Language Line | Business Services | 785 | 785 | 1.85 |
| Fretwell Downing | IT Support Services | 514 | 617 | 1.46 |
| Staffline | Business Services | 814 | 550 | 1.30 |
| Country Artists | Consumer Markets | 517 | 517 | 1.22 |
| SLR Holdings | Business Services | 494 | 494 | 1.16 |
| Ardana | Healthcare | 438 | 438 | 1.03 |
| Hawksmere | Business Services | 942 | 424 | 1.00 |
| Occam DM | Business Services | 420 | 420 | 0.99 |
| BodyCare International | Consumer Markets | 1,000 | 273 | 0.64 |
| Oxxon Pharmaccines | Healthcare | 250 | 250 | 0.59 |
| Domantis | Healthcare | 237 | 237 | 0.56 |
| SpaForm | Consumer Markets | 1,000 | 225 | 0.53 |
| Job Opportunities | Media | 952 | – | – |
| Imerge | IT Support Services | 500 | – | – |
| Total unquoted | | 17,474 | 21,055 | 49.66 |
| Quoted on AIM | | | | |
| Huveaux | Media | 688 | 1,379 | 3.25 |
| Vectura | Healthcare | 781 | 781 | 1.84 |
| Inter Link Foods | Consumer Markets | 273 | 741 | 1.75 |
| Air Music & Media | Media | 575 | 667 | 1.57 |
| The Real Good Food Group | Consumer Markets | 620 | 659 | 1.55 |
| I-documentsystems | IT Support Services | 600 | 640 | 1.51 |
| Murgitroyd Group | Business Services | 500 | 620 | 1.46 |
| Top Ten | Consumer Markets | 759 | 611 | 1.44 |
| Fitzhardinge | Business Services | 470 | 566 | 1.33 |
| Zoo Digital | IT Support Services | 438 | 542 | 1.28 |
| Begbies Traynor | Business Services | 525 | 525 | 1.24 |
| Medal Entertainment & Media | Media | 371 | 510 | 1.20 |
| ATA Group | Business Services | 355 | 509 | 1.20 |
| NeuTec Pharma | Healthcare | 153 | 478 | 1.13 |
| Landround | Business Services | 467 | 477 | 1.12 |
| Scott Tod | Business Services | 421 | 465 | 1.10 |
| Stagecoach Theatre Arts | Consumer Markets | 419 | 372 | 0.88 |
| Business Direct | Business Services | 348 | 365 | 0.86 |
| Polaron | IT Support Services | 296 | 340 | 0.80 |
| Prologic | IT Support Services | 310 | 327 | 0.77 |
| Quadnetics | Business Services | 296 | 313 | 0.74 |
| Adventis | Media | 281 | 300 | 0.71 |
| Micap | Healthcare | 375 | 285 | 0.67 |
| VI Group | IT Support Services | 500 | 279 | 0.66 |
| MKM Group | Business Services | 284 | 252 | 0.59 |
| Biofocus | Healthcare | 680 | 249 | 0.59 |
| Cardpoint | Business Services | 114 | 248 | 0.59 |
| Universe Group | Business Services | 195 | 152 | 0.36 |
| Blooms of Bressingham | Consumer Markets | 320 | 126 | 0.30 |
| Conder Environmental | Business Services | 340 | 94 | 0.22 |
| Xpertise Group | Business Services | 296 | 94 | 0.22 |
| Sirius Financial Solutions | IT Support Services | 150 | 82 | 0.19 |
| Capcon Holdings | Business Services | 137 | 67 | 0.16 |
| Cobra Biomanufacturing | Healthcare | 210 | 62 | 0.15 |
| Charterhouse Communications | Media | 355 | 55 | 0.13 |
| AorTech International | Healthcare | 285 | 30 | 0.07 |
| Highams Systems Services | IT Support Services | 197 | 13 | 0.03 |
| NMT Group | Healthcare | 351 | 12 | 0.03 |
| Total AIM | | 14,735 | 14,287 | 33.69 |
| OFEX | | | | |
| Chemistry Communications | Business Services | 500 | 105 | 0.25 |
| Total OFEX | | 500 | 105 | 0.25 |
| Fixed interest securities | | 5,981 | 6,028 | 14.22 |
| Total investments | | 38,690 | 41,475 | 97.82 |
| Net current assets | | | 926 | 2.18 |
| Total assets less current liabilities | | | 42,401 | 100.00 |

Unaudited Profit and Loss Account

For the Six Months to 30 September 2004

| | Six months to 30 September 2004 | | | Six months to 30 September 2003 | | | Year to 31 March 2004 | | |
|---|---------------------------------|------------------|----------------|---------------------------------|------------------|----------------|-----------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| (Losses)/gains on investments | – | (828) | (828) | – | 855 | 855 | – | 1,920 | 1,920 |
| Income | 679 | – | 679 | 566 | – | 566 | 1,256 | – | 1,256 |
| Investment management fee | (114) | (344) | (458) | (94) | (281) | (375) | (195) | (583) | (778) |
| Other expenses | (147) | – | (147) | (129) | – | (129) | (284) | – | (284) |
| Profit/(loss) on ordinary activities before taxation | 418 | (1,172) | (754) | 343 | 574 | 917 | 777 | 1,337 | 2,114 |
| Tax on ordinary activities | (55) | 55 | – | (64) | 64 | – | (131) | 132 | 1 |
| Profit/(loss) on ordinary activities after taxation | 363 | (1,117) | (754) | 279 | 638 | 917 | 646 | 1,469 | 2,115 |
| Dividends in respect of equity shares | (337) | (632) | (969) | (246) | (2,166) | (2,412) | (492) | (2,984) | (3,476) |
| Retained profits/(losses) transferred to/(from) reserves | 26 | (1,749) | (1,723) | 33 | (1,528) | (1,495) | 154 | (1,515) | (1,361) |
| Earnings/(loss) per ordinary 10p share | 0.86p | (2.65p) | (1.79p) | 0.68p | 1.55p | 2.23p | 1.58p | 3.58p | 5.16p |

Notes

1. The unaudited interim results have been prepared on the basis of the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2004. Unquoted investments have been valued in accordance with BVCA guidelines. Quoted investments are stated at middle market prices in accordance with Generally Accepted Accounting Practice.
2. Earnings for the first six months should not be taken as a guide to the results of the full year.
3. Return per ordinary share is based on a weighted average of 42,077,838 ordinary shares in issue (31 March 2004 – 40,996,280, 30 September 2003 – 41,101,447).
4. During the six months ended 30 September 2004 the Company issued 1,744,598 ordinary shares and bought for cancellation 485,000 ordinary shares at a cost of £441,000. There were 42,133,617 ordinary shares in issue at 30 September 2004 (31 March 2004 – 40,874,019, 30 September 2003 – 40,989,300).

Unaudited Statement of Total Recognised Gains and Losses

For the six months to 30 September 2004

| | Six months to 30 September 2004 | | | Six months to 30 September 2003 | | | Year to 31 March 2004 | | |
|--|---------------------------------|------------------|----------------|---------------------------------|------------------|----------------|-----------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Profit/(loss) on ordinary activities after taxation | 363 | (1,117) | (754) | 279 | 638 | 917 | 646 | 1,469 | 2,115 |
| Unrealised gain on revaluation of investments | – | 1,086 | 1,086 | – | 3,614 | 3,614 | – | 6,306 | 6,306 |
| Total recognised gain/(loss) during the period | 363 | (31) | 332 | 279 | 4,252 | 4,531 | 646 | 7,775 | 8,421 |
| Total recognised gain/(loss) per ordinary share | 0.86p | (0.07p) | 0.79p | 0.68p | 10.34p | 11.02p | 1.58p | 18.96p | 20.54p |

5. The interim dividend of 2.3p per ordinary share will be paid on 16 December 2004 to shareholders on the register on 26 November 2004.
6. These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. The full audited accounts for the year ended 31 March 2004, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2004 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
7. Copies of the Interim Report, which has been reviewed by the Company's auditors, have been mailed to shareholders and are available for inspection at the Registered Office of the Company at Exchange House, Primrose Street, London EC2A 2NY.
8. Since the period end, as at 15 November 2004, £9.7 million had been raised under the current offer for subscription of up to 20,000,000 C shares, which is set to close on 28 January 2005 unless fully subscribed beforehand.

Unaudited Balance Sheet

| | As at 30 September 2004 £'000 | As at 30 September 2003 £'000 | As at 31 March 2004 £'000 |
|---|--|--|------------------------------------|
| Fixed assets | | | |
| Investments | | | |
| Listed investments | – | 560 | 476 |
| Quoted on the Alternative Investment Market | 14,287 | 10,625 | 13,004 |
| Quoted on OFEX | 105 | 299 | 94 |
| Unquoted investments | 21,055 | 13,200 | 18,986 |
| Listed fixed interest investments | 6,028 | 5,039 | 4,174 |
| | 41,475 | 29,723 | 36,734 |
| Current assets | | | |
| Debtors | 325 | 448 | 370 |
| Cash at bank and on deposit | 1,785 | 9,661 | 4,856 |
| | 2,110 | 10,109 | 5,226 |
| Creditors: amounts falling due within one year | (1,184) | (933) | (317) |
| Net current assets | 926 | 9,176 | 4,909 |
| Total assets less current liabilities | 42,401 | 38,899 | 41,643 |
| Capital and reserves | | | |
| Called-up share capital | 4,213 | 4,099 | 4,088 |
| Share premium account | 2,406 | 543 | 745 |
| Other reserves – | | | |
| Revaluation reserve | 4,964 | (1,207) | 3,665 |
| Capital redemption reserve | 149 | 66 | 100 |
| Profit and loss account | 30,669 | 35,398 | 33,045 |
| Equity shareholders' funds | 42,401 | 38,899 | 41,643 |
| Net asset value per share: | | | |
| Ordinary | 100.63p | 94.90p | 101.88p |
| Number of shares in issue at balance sheet date | 42,133,617 | 40,989,300 | 40,874,019 |

Note on Investments

| | £'000 | £'000 |
|---|---------|---------------|
| Investments as at 31 March 2004 (at valuation) | | 36,734 |
| Purchases | 8,143 | |
| Sales – proceeds | (3,660) | |
| Cash movement on investments (per statement of cash flows) | | 4,483 |
| Realised gains on sales | 42* | |
| Permanent diminution in value of investments | (870) | |
| Losses on investments (per profit and loss account) | | (828) |
| Unrealised gains realised during period | 814* | |
| Unrealised change in value of investments | 272 | |
| Unrealised gain on revaluation of investments (per statement of total recognised gains and losses) | | 1,086 |
| Investments as at 30 September 2004 (at valuation) | | 41,475 |

*Realised gains for the 6 month period amounted to £856,000.

Summarised Unaudited Statement of Cash Flows

| | Six months to 30 September 2004 £'000 | Six months to 30 September 2003 £'000 | Year to 31 March 2004 £'000 |
|---|--|--|--------------------------------------|
| Net cash (outflow)/inflow from operating activities | (101) | 137 | 377 |
| Taxation | – | – | (163) |
| Capital expenditure and financial investment | (4,483) | 1,391 | (1,750) |
| Equity dividends paid | – | (1,920) | (3,476) |
| Net cash outflow before financing | (4,584) | (392) | (5,012) |
| Financing | 1,513 | 164 | (21) |
| Decrease in cash | (3,071) | (228) | (5,033) |
| Reconciliation of net cash flow to movement in net cash | | | |
| Decrease in cash | (3,071) | (228) | (5,033) |
| Net cash at 1 April | 4,856 | 9,889 | 9,889 |
| Net cash at 30 September/31 March | 1,785 | 9,661 | 4,856 |
| Reconciliation of profit on ordinary activities to net cash flow from operating activities | | | |
| (Loss)/profit on ordinary activities before taxation | (754) | 917 | 2,114 |
| Losses/(gains) on investments | 828 | (855) | (1,920) |
| Changes in working capital and other non cash items | (175) | 75 | 183 |
| Net cash (outflow)/inflow from operating activities | (101) | 137 | 377 |

Independent Review Report to Baronsmead VCT 2 plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2004 which comprises the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

PKF

London, UK

16 November 2004

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in December. Final dividends are ordinarily paid in July. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from the Company's registrar.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details of the dividend reinvestment scheme can be obtained from the Company's Investor Relations Manager, Michael Probin.

Share Prices

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* for the ordinary shares under "Investment Companies".

Buy Back Policy

The Company operates its buy back policy via the market for its shares on the London Stock Exchange. This increases the opportunity for others to buy the shares and potentially reduces the number of shares bought back by the Company. The Company cannot buy back its own shares during close periods (the period after a financial reporting period end and prior to the announcement of the results for that period).

Change of Address

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

Financial Calendar

| | |
|---------------|---|
| December 2004 | Payment of interim dividend |
| January 2005 | Close of C share offer for subscription |
| February 2005 | Announcement of net asset value at 31 December 2004 and factsheet issued |
| May 2005 | Announcement of annual results for the year ended 31 March 2005 including proposed final dividend |
| May 2005 | Posting of annual report for the year ended 31 March 2005 |
| June 2005 | Annual General Meeting |
| July 2005 | Payment of final dividend |

Enquiries

Contact Michael Probin, VCT Investor Relations Manager for Baronsmead VCT 2 plc:

| | |
|------------|---------------------------|
| Telephone: | 020 7506 1651* |
| Fax: | 020 7601 1787 |
| e-mail: | michael.probin@isisam.com |
| Website: | www.baronsmeadvct2.co.uk |

* (Telephone calls may be recorded)

Baronsmead VCT 2 plc is managed by ISIS Equity Partners plc a wholly owned subsidiary of F&C Asset Management plc which is Authorised and regulated by the Financial Services Authority. 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)
Godfrey Frank Jillings
Gillian Nott
Nicholas George Lawrence Timpson

Secretary

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Registered Office

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Primrose Street
London
EC2A 2NY

Investment Managers

ISIS Equity Partners plc
100 Wood Street
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