

Baronsmead VCT 2 plc

2005

Interim report for the
six months ended
30 September 2005



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, although under the new Prospectus Directive introduced on 1 July 2005, this is not cost effective at present.
- 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

The Board wishes to sustain average annual dividends of 4.5p per ordinary share, 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. Since launch the average annual tax-free dividend paid to Shareholders has been 5.5p per share (equivalent to a pre-tax return of 8.1p per share for a higher rate taxpayer).

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*

Highlights

- Ten new investments were made during the period and five sold taking the total equity portfolio to 71 companies.

Ordinary shares

- NAV per share increased by 5.7 per cent to 120.76p (before any dividend payments) from 114.22p.
- After interim dividends totalling 7.5p per share (equivalent to 11.1p to a higher rate tax payer) the NAV will be 113.26p.
- The first interim dividend of 5p per share was paid on 6 June 2005 and the second interim dividend of 2.5p per share is payable on 16 December 2005.
- Since launch in 1998 the total return to ordinary shareholders is 81 per cent (based on quoted investments valued at mid-market price).

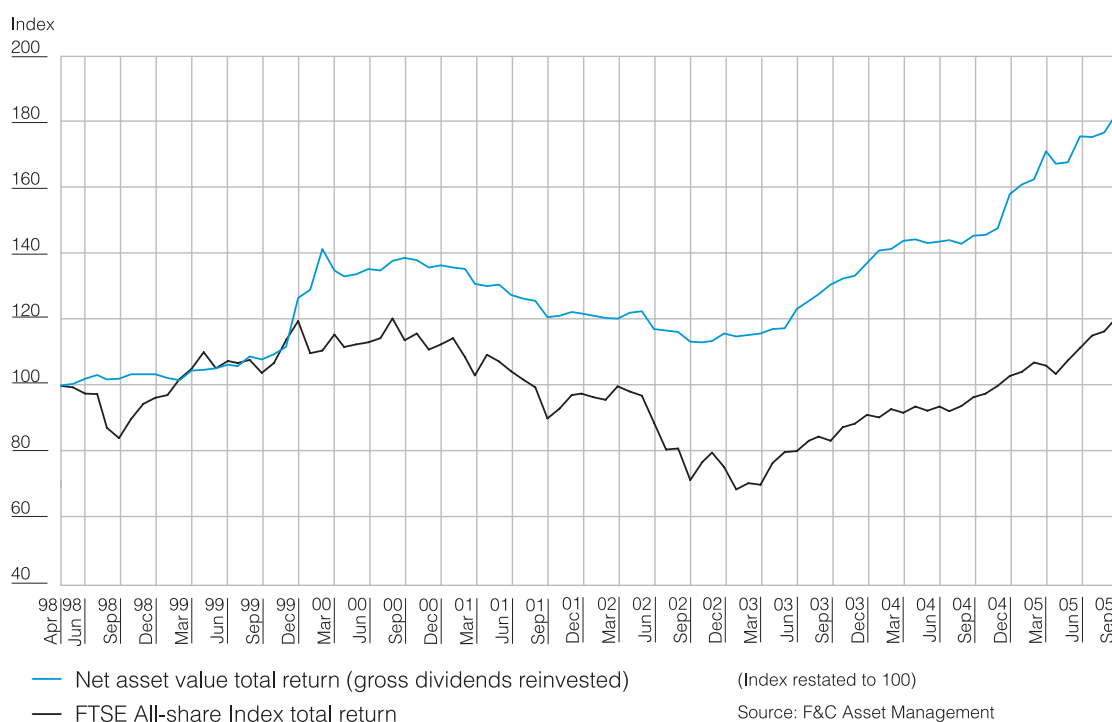
C shares

- NAV per share increased by 3.0 per cent to 97.88p from 95.04p.
- After an interim dividend declared of 1.0p per share, the NAV was 96.88p.
- The interim dividend of 1.0p per share is payable on 16 December 2005.

*The Net Asset Values stated above are based on revised UK GAAP in that quoted investments are valued at bid price. However, dividends payable by the Company have been recognised in the accounting period to which they related and not in the accounting period when they are paid. This is a departure from revised UK GAAP.

Baronsmead VCT 2 plc – ordinary shares

Net asset value total return (based on middle market price) since launch against the FTSE All-share Index total return



Performance summary

	30 September 2005	31 March 2005	% change
Ordinary shares – capital values*			
Net asset value per share	120.76p	114.22p	5.7
Share price (mid market)	102.50p	100.50p	2.0
Discount (against NAV per share, revised UK GAAP)	(11.45%)	(14.04%)	–
Net asset value total return in period ‡	6.0%	18.9%	–
Net asset value total return since launch ‡	80.9%	70.7%	–
Total assets (revised UK GAAP)	£47.5m	£48.5m	(2.1)
C shares – capital values			
Net asset value per share	97.88p	95.04p	3.0
Share price (mid market)	92.50p	95.00p	(2.6)
Discount (against NAV per share, revised UK GAAP)	(5.50%)	(1.08%)	–
Net asset value total return in period ‡	3.2%	1.3%	–
Net asset value total return since launch ‡	4.5%	1.3%	–
Total assets (revised UK GAAP)	£21.6m	£21.1m	2.4

‡ Net asset value total return assuming gross dividends reinvested

* Reconciliation of net asset value per share

	As at 30 September 2005		As at 31 March 2005		As at 30 September 2004
	Ordinary shares	C shares	Ordinary shares	C shares	Ordinary shares
Net asset value per share (accounting policies at 31 March 2005)	114.61p	97.28p	115.63p	95.23p	100.63p
Less: revaluation of investments from mid to bid prices	(1.35)p	(0.40)p	(1.41)p	(0.19)p	(1.26)p
	113.26p	96.88p	114.22p	95.04p	99.37p
Add: dividend declared	2.50p	1.00p	2.70p	1.00p	2.30p
Net asset value per share (revised UK GAAP)	115.76p	97.88p	116.92p	96.04p	101.67p
Add: Dividend paid 6 June 2005	5.00p	–	–	–	–
Net asset value per share (before dividends)	120.76p	97.88p	116.92p	96.04p	101.67p

Chairman's Statement

The active sale of mainly unquoted investments has enabled the good record of dividends to be sustained.

Baronsmead VCT 2 is now the largest VCT in the market place with assets at over £69 million. It continues to focus on investment in established and profitable unquoted and AiM-traded companies.

Results

The six months to 30 September 2005 has been a further satisfactory period for the Company, in terms of investment, realisations, dividends and growth. The use of revised UK GAAP makes it difficult to show clearly the achievements for the period and the treatment of dividends under this standard makes a comparison of NAV growth difficult to display. Thus at 31 March 2005 the NAV per ordinary share under the new rules was 116.92p, but 2.7p was paid as a final dividend to ordinary shareholders in June 2005 and has been deducted to provide an adjusted NAV of 114.22p per ordinary share. This compares with 120.76p per ordinary share, as at 30 September 2005, before providing for dividend distributions. Therefore, on a comparative basis the NAV per ordinary share increased by 5.7 per cent before providing for a 5p first interim dividend paid in June 2005 and a 2.5p second interim dividend (comprising 1.4p from net revenue and 1.1p from net realised profits) payable to ordinary shareholders on 16 December 2005. The resulting NAV per ordinary share at the interim stage was 113.26p per share.

Again, the opening NAV per C share has been restated to take account of the quoted investments being valued at bid price. This has resulted in the NAV reported at 31 March 2005 being reduced by 0.19p to 95.04p. For the six months to 30 September 2005, the NAV of the C share pool increased by 3.0 per cent to 97.88p, before the payment of a 1.0p interim dividend. This dividend will also be paid to C shareholders on 16 December 2005. The increase in value of the AiM portfolio accounted for most of this gain.

Since April 1998, the total investment return (based on quoted investments valued at mid-market price) is 81 per cent, which is comparable to 20 per cent growth in the FTSE All-Share index (total return) over the same period. Tax free dividends paid and declared now total 41.4p for founder shareholders, which is an average of 5.5p per annum. If the initial 20 per cent income tax relief is taken into account, founder shareholders will have received a net annual yield of 6.9 per cent equivalent to an annual yield of 10.2 per cent for higher rate tax payers.

The portfolio

In the six month period under review, ten new investments were made and five sold increasing the portfolio to 71 companies and maintaining the level of qualifying investments at approximately 75 per cent at the period end. The relative health of portfolio companies is measured quarterly in terms of profitability or other measures of progress appropriate to the investment in question. Currently 79 per cent of the investees were reporting higher or steady progress.

The increase in NAV per ordinary share was largely attributable to the unquoted portfolio. Fat Face generated significant profits whilst AssA and Searchspace were both realised at more than twice cost. During the six months the realisation of Kondor was achieved at cost but Biofocus and Imerge were sold at a loss. Sustained trading progress at Americana not only increased its value but subsequently a significant part of this value has been redeemed for shareholders after the period end. This part realisation represents 5.5 times cost paid for this investment in August 2003.

The table below shows the realisations in the six months to 30 September 2005

Realisations to 30 September 2005	First investment date	Original cost £'000	Proceeds £'000	Multiple return
Fat Face	February 2000	500	5,686†	11.9*
AssA	September 2005	1,371	2,863	2.5*
Begbies Traynor	September 2004	86	192	2.3
Searchspace	April 2001	500	1,162	2.3*
MEM	August 2002	68	139	2.1
Kondor	May 2000	1,000	986	1.4*
Biofocus (totally sold in October 2005)	July 2000	168	57	0.3
Imerge	November 2000	500	1	–

*includes interest & dividends received

†450k loan redeemed in December 2003

Chairman's Statement

New investment was into four unquoted companies and six AiM-traded companies as set out in the table below.

Company	Location	Sector	Activity	(£'000)	
				C share	Ord share
Unquoted					
Boldon James	Crewe	IT services	Messaging security	496	190
Credit Solutions	Carshalton	Business services	Corporate financial services	756	275
Independent Living Services	Alloa	Healthcare	Domiciliary care	381	243
Xention	Cambridge	Healthcare	Drug discovery	67	30
Total unquoted				1,700	738
AiM traded					
Debt matters	Manchester	Consumer	Insolvency services	160	60
Eg Solutions	Staffordshire	IT services	Financial services software	271	104
Fishworks	Bath	Consumer	Fishmongers & restaurants	93	35
Hamsard	Warrington	IT services	Security network solutions	265	110
InterQuest	London	Business services	Recruitment agencies	234	90
Talarius	London	Consumer	Amusement machine centres	229	84
Total AiM traded				1,252	483
Total investment				2,952	1,221

Meeting shareholders needs

During the period under review, 484,589 ordinary shares were issued under the Dividend Reinvestment Scheme at 108p per share. Since the Company's year end and prior to the Company's AGM held in June 2005, 475,000 ordinary shares were purchased and cancelled by the Company at approximately a 10 per cent discount to NAV per share.

Since the Company's AGM, at which shareholder's voted in favour of shares being held in Treasury, the Company has purchased 425,000 ordinary shares to be held in this way. The Board's policy on Treasury Shares is to ensure that if these shares are issued, they will be priced at the NAV or above on the day of re-issue. This will avoid dilution to existing shareholders. The Company is only permitted to hold 10 per cent of its issued share capital in Treasury and Treasury Shares can be cancelled by the Company at any time. Treasury Shares are not entitled to any dividends paid by the Company and carry no voting rights.

Corporate Governance

The introduction of International Financial Reporting Standards (IFRS) on 1 January 2005 had important implications for financial institutions which have private equity operations since IFRS requires investee companies to consolidate their financial reporting in line with the ultimate shareholder. This would have proved to be an unacceptable imposition to all parties and professional advice was sought for alternative solutions.

The advice received provided the Managers with an opportunity to acquire control of the business and on 1 July 2005, a new Limited Liability Partnership was created to assume the existing business and operations of ISIS Equity Partners (ISIS), managing circa £500m of private equity assets, including the management contract with Baronsmead VCT 2. The relationship between F&C and ISIS remains strong as the status of the latter moves from being a subsidiary to that of partnership. The Board was fully consulted regarding this change of control and are supportive of the new arrangement.

Co-investment scheme of Managers

The Co-investment Scheme for executive members of the Managers to invest in unquoted transactions was announced to shareholders in November 2004. The rationale was to retain the existing skills and capacity of the Managers team and also to attract new talent in a market which is strongly competitive in order to maintain and improve our successful investment performance. Early indications are that this has been successful. In the last year five new staff members have joined ISIS, each with an average of some ten years relevant investment experience. Co-investments made to date by 27 individuals total £27,000 made in three unquoted transactions comprising Boldon James, Credit Solutions and Independent Living Services.

Chairman's Statement

The benefits to VCT shareholders of the Co-investment Scheme (under which 5 per cent of the ordinary shares in the unquoted investee companies are subscribed by executive professionals working for ISIS) are that the interests of the team and the VCT shareholders are aligned more closely. It is important to note that members of the Co-investment Scheme are required to invest in all unquoted investments, they cannot cherry pick, they must follow on if the fund decides to do so and if they leave before the investment is realised, they will miss out on much of the potential value.

As reported 12 months ago, the Board took independent financial and legal advice on a wide range of matters relating to the Scheme. The Board examined the proposal over several months and their review included calculating what the impact of the Scheme would have been had it been in force since inception of the Company to the date the Co-investment Scheme was effected. The resulting dilution would have been 0.2 per cent per annum. The Board concluded and remain satisfied that the potential dilution expected from this Scheme is small and should be more than offset by an improvement in investment performance.

Undertaking this innovative Scheme, the Managers have continued to sustain and improve their investment capabilities in terms of both breadth and depth of skills. As a result, ISIS has been able to remunerate its staff in line with non-VCT private equity managers with whom it normally competes for transactions. The Board receives an annual report on the Scheme and will formally consider its continuance in four years.

Outlook

The interim results to 30 September 2005 meet the twin objectives of achieving long term capital growth and generate consistent and growing tax free dividends. The high level of unquoted realisations, both during the period and subsequently, gives the Board confidence that the dividend record can be sustained in the medium term.

For the first time the portfolio has moved to over seventy companies and therefore provides a high level of diversification to counter varying economic conditions.

Clive Parritt

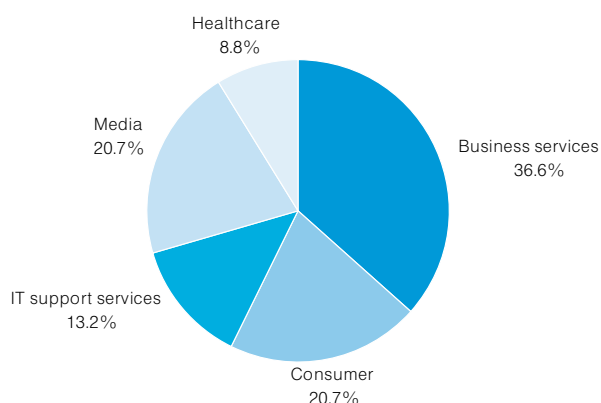
Chairman

11 November 2005

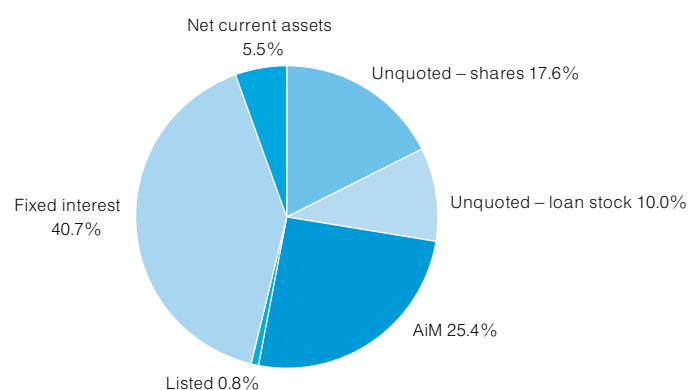
Investment Classification

(Combined investments of both Ordinary shares and C shares at market valuation)

Sector Analysis by value as at 30 September 2005



Market Analysis by value as at 30 September 2005



Investment portfolio

Portfolio valuation at 30 September 2005

Company	Nature of business	Book cost		Valuation		% of Net Assets	
		Ordinary shares £'000	C shares £'000	Ordinary shares £'000	C shares £'000	Ordinary shares	C shares
Unquoted							
Americana	Consumer Markets	70		4,168		8.8	
The Art Group	Media	1,576		2,725		5.7	
Martin Audio	Business Services	968		2,339		4.9	
RLA Media	Media	1,438		2,240		4.7	
Language Line	Business Services	812		1,193		2.5	
kidsunlimited	Business Services	481		1,033		2.2	
SLR Holdings	Business Services	494		886		1.9	
Fretwell Downing	IT	503		577		1.2	
Occam	Business Services	420		566		1.2	
Country Artists	Consumer Markets	517		465		1.0	
Credit Solutions	Business Services	275	756	275	756	0.6	3.5
Oxon Pharmaccines	Healthcare	250		250		0.5	
Independent Living Services	Healthcare	243	381	243	381	0.5	1.8
Domantis	Healthcare	237		237		0.5	
Boldon James	IT	190	496	190	496	0.4	2.3
Xention Discovery	Healthcare	30	67	30	67	0.1	0.3
Hawksmere	Business Services	942		–			
SpaForm	Consumer Markets	1,000		–			
Job Opportunities	Media	872		–			
Total unquoted		11,318	1,700	17,417	1,700	36.7	7.9
Listed							
Ardana	Healthcare	481		471		1.0	
Total listed		481	–	471	–	1.0	–
AiM							
Begbies Traynor Group	Business Services	420		1,313		2.8	
Huveaux	Media	666		1,192		2.5	
Vectura Group	Healthcare	578		983		2.1	
Staffline Recruitment Group	Business Services	249		938		2.0	
Inter Link Foods	Consumer Markets	264		926		2.0	
Murgitroyd Group	Business Services	319		632		1.3	
Colliers CRE	Business Services	470		572		1.2	
IDOX	IT	600		560		1.2	
Real Good Food Company	Consumer Markets	620		519		1.1	
Top Ten	Consumer Markets	759		499		1.0	
Jelf Group	Business Services	393		458		1.0	
Zoo Digital	IT	438		417		0.9	
WIN	IT	263		384		0.8	
Air Music & Media Group	Media	575		354		0.8	
Landround	Business Services	467		349		0.7	
Medal Entertainment & Media	Media	299		339		0.7	
Adventis Group	Media	281		295		0.6	
ATA Group	Business Services	355		288		0.6	
Prologic	IT	310		277		0.6	
Quadnetics	Business Services	296		263		0.6	
Cardpoint	Business Services	114		259		0.6	
neuTec	Healthcare	78		256		0.5	
Stagecoach Theatre Arts	Consumer Markets	419		225		0.5	
Polaron	IT	296		192		0.4	
VI Group	IT	500		186		0.4	
Blooms of Bressingham	Consumer Markets	320		185		0.4	
Business Direct Group	Business Services	304		183		0.4	
Biofocus	Healthcare	512		164		0.3	
Eg Solutions	IT	104	271	159	414	0.3	1.9
Universe Group	Business Services	195		157		0.3	
Sanderson Group	IT	102	285	151	422	0.3	2.0
Conder Environmental	Business Services	340		145		0.3	
Cobra Biomanufacturing	Healthcare	210		118		0.2	
Hamsard Group	IT	110	265	113	274	0.2	1.3
Scott Tod	Business Services	421		102		0.2	
Sirius Financial Solutions	IT	150		101		0.2	
DebtMatters Group	Consumer Markets	60	160	99	265	0.2	1.2
Interactive Prospect Targeting	Media	50	203	98	396	0.2	1.8
Xpertise Group	Business Services	296		97		0.2	
Talarius	Consumer Markets	84	229	96	263	0.2	1.2
InterQuest Group	Business Services	90	234	73	191	0.2	0.9
Fishworks	Business Services	35	93	48	130	0.1	0.6
Charterhouse Communications	Media	355		44		0.1	
Micap	Healthcare	375		38		0.1	
Accuma Group	Business Services	17	90	34	181	0.1	0.8
MKM Group	Business Services	284		32		0.1	
Capcon Holdings	Business Services	137		31		0.1	
AorTech International	Healthcare	285		16		–	
NMT Group	Healthcare	351		15		–	
Highams Systems Services	IT	197		10		–	
Total AiM		15,413	1,830	14,985	2,536	31.6	11.7
OFEX							
Chemistry Communications	Business Services	500		98		0.2	
Total OFEX		500	–	98	–	0.2	–
Fixed interest							
UK Treasury 4.5% 07/03/07		8,089	2,500	8,132	2,510	17.1	11.6
Money Market OEIC		4,627	2,200	4,627	2,200	9.7	10.2
UK Treasury 7.5% 07/12/06		–	10,848	–	10,648	–	49.3
Total fixed interest		12,716	15,548	12,759	15,358	26.8	71.1
Total investments		40,428	19,078	45,730	19,594	96.3	
Net current assets				1,776	2,013	3.7	9.3
Net assets				47,506	21,607	100.0	100.0

Independent Review Report to Baronsmead VCT 2 plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 8 to 13 and 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.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

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 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 there are to be changes in the next annual accounts in which case 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 Review of interim financial information 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 is substantially less in scope than an audit performed in accordance with Auditing Standards 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 2005.

KPMG Audit Plc
Chartered Accountants
Edinburgh

11 November 2005

Unaudited Profit and Loss Account

For the Six Months to 30 September 2005

	Ordinary Shares			C Shares*			Total		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	1,258	1,258	–	408	408	–	1,666	1,666
Realised gains/(losses) on investments	–	920	920	–	(2)	(2)	–	918	918
Income	1,011	–	1,011	625	–	625	1,636	–	1,636
Investment management fee	(137)	(412)	(549)	(63)	(190)	(253)	(200)	(602)	(802)
Other expenses	(109)	–	(109)	(74)	–	(74)	(183)	–	(183)
Profit on ordinary activities before taxation	765	1,766	2,531	488	216	704	1,253	1,982	3,235
Taxation on ordinary activities	(175)	250	75	(138)	63	(75)	(313)	313	–
Profit on ordinary activities after taxation	590	2,016	2,606	350	279	629	940	2,295	3,235
Return per ordinary share/C share:			6.32p			2.85p			5.11p

*C shares launched on 1 October 2004.

Dividends paid/payable per share:

First interim dividend paid on

6 June 2005
 – | 5.0p | **5.0p** | – | – | – | – | 5.0p | **5.0p** |

Interim dividend payable on

16 December 2005
 – | – | – | 1.0p | – | **1.0p** | 1.0p | – | **1.0p** |

Second interim dividend payable

on 16 December 2005
 1.4p | 1.1p | **2.5p** | – | – | – | 1.4p | 1.1p | **2.5p** |

 1.4p | 6.1p | **7.5p** | 1.0p | – | **1.0p** | 2.4p | 6.1p | **8.5p** |

Notes

1. The unaudited interim results which cover the six months to 30 September 2005 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2005 apart from the following:

– under FRS 25/26, applicable for accounting periods commencing 1 January 2005, the unrealised gain in fair value designated investments has been recognised through the profit and loss account. In line with revised GAAP, quoted investments have been valued at bid, rather than mid-market price. As a result of this change the Company's net asset value as at 30 September 2005 has reduced by £642,000. As at 31 March 2005 the Company's net asset value has reduced by £623,000. As at 30 September 2004 the Company's net asset value has reduced by £532,000.

– under FRS 21, applicable for accounting periods commencing 1 January 2005, dividends payable by the Company are now recognised in the period in which they are paid. As a result of this change the Company's net asset value as at 30 September 2005 has increased by £1,247,000 (being the second interim ordinary capital and revenue dividends of 1.1p and 1.4p respectively and the interim C revenue dividend of 1.0p due to be paid on 16 December 2005). As at 31 March 2005 the Company's net asset value has increased by £1,339,000 (being the final ordinary capital and revenue dividends of 1.6p and 1.1p respectively and the final C revenue dividend of 1.0p paid on 28 June 2005).

As at 30 September 2004 the Company's net asset value has increased by £969,000 (being the interim capital and revenue dividends of 1.5p and 0.8p respectively paid on 16 December 2004).

Unaudited Profit and Loss Account

For the Six Months to 30 September 2004

	Ordinary Shares (as restated)		
	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	195	195
Realised gains on investments	–	41	41
Income	679	–	679
Investment management fee	(114)	(344)	(458)
Other expenses	(147)	–	(147)
Profit/(loss) on ordinary activities before taxation	418	(108)	310
Taxation on ordinary activities	(55)	55	–
Profit/(loss) on ordinary activities after taxation	363	(53)	310
Return per ordinary share:			0.74p

Dividends payable:

Interim dividend payable on 16 December 2004	0.8p	1.5p	2.3p
	0.8p	1.5p	2.3p

- Return per ordinary share is based on a weighted average of 41,266,797 ordinary shares in issue (31 March 2005 – 41,995,911, 30 September 2004 – 42,077,838). Return per C share is based on a weighted average of 22,035,653 C shares in issue (31 March 2005 – 15,323,042).
- Earnings for the first six months to 30 September 2005 should not be taken as a guide to the results of the full year.
- During the six months ended 30 September 2005 the Company issued 484,589 ordinary shares and purchased for cancellation 475,000 ordinary shares at a cost of £472,000. A further 425,000 ordinary shares were purchased by the Company to be held in Treasury at a cost of £437,000. There were 41,038,015 ordinary shares in issue at 30 September 2005 (31 March 2005 – 41,453,426, 30 September 2004 – 42,133,617). During the six months ended 30 September 2005, the Company issued 74,995 C shares. There were 22,074,995 C shares in issue at 30 September 2005 (31 March 2005 – 22,000,000).

Unaudited Profit and Loss Account

For the Year to 31 March 2005

	Ordinary Shares (as restated)			C Shares (as restated)			Total (as restated)		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	7,789	7,789	–	86	86	–	7,875	7,875
Realised gains on investments	–	1,181	1,181	–	–	–	–	1,181	1,181
Income	1,511	–	1,511	383	–	383	1,894	–	1,894
Investment management fee	(255)	(2,418)	(2,673)	(43)	(129)	(172)	(298)	(2,547)	(2,845)
Other expenses	(272)	–	(272)	(57)	–	(57)	(329)	–	(329)
Profit/(loss) on ordinary activities before taxation	984	6,552	7,536	283	(43)	240	1,267	6,509	7,776
Taxation on ordinary activities	(177)	206	29	(54)	25	(29)	(231)	231	–
Profit/(loss) on ordinary activities after taxation	807	6,758	7,565	229	(18)	211	1,036	6,740	7,776
Return per ordinary share/C share:			18.01p			1.38p			13.58p

Dividends paid/payable:

Interim dividend paid on 16 December 2004	0.8p	1.5p	2.3p	–	–	–	0.8p	1.5p	2.3p
Final dividend payable on 28 June 2005	1.1p	1.6p	2.7p	–	–	–	1.1p	1.6p	2.7p
Final dividend payable on 28 June 2005	–	–	–	1.0p	–	1.0p	1.0p	–	1.0p
	1.9p	3.1p	5.0p	1.0p	–	1.0p	2.9p	3.1p	6.0p

- A second interim dividend comprising 1.4p (revenue) and 1.1p (capital) will be paid on 16 December 2005 to ordinary shareholders on the register on 25 November 2005. An interim 1.0p revenue dividend will also be paid on 16 December 2005 to C shareholders on the register on 25 November 2005.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the year to 31 March 2005, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2005 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Interim Report have been mailed to shareholders and are available from the Registered Office of the Company at Exchange House, Primrose Street, London EC2A 2NY.

Unaudited Balance Sheet

	As at 30 September 2005			As at 30 September 2004 (as restated)	As at 31 March 2005 (as restated)		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets							
Unquoted investments	17,417	1,700	19,117	21,055	23,698	–	23,698
Quoted on the Alternative Investment Market	14,985	2,536	17,521	13,758	15,919	786	16,705
Quoted on OFEX	98	–	98	105	127	–	127
Listed investments	471	–	471	–	481	–	481
Fixed interest investments	12,759	15,358	28,117	6,025	6,001	17,984	23,985
	45,730	19,594	65,324	40,943	46,226	18,770	64,996
Current assets							
Debtors	474	349	823	325	299	302	601
Cash at bank and on deposit	1,629	1,955	3,584	1,785	4,100	2,589	6,689
	2,103	2,304	4,407	2,110	4,399	2,891	7,290
Creditors: amounts falling due within one year	(327)	(291)	(618)	(215)	(2,156)	(532)	(2,688)
Net current assets	1,776	2,013	3,789	1,895	2,243	2,359	4,602
Net assets	47,506	21,607	69,113	42,838	48,469	21,129	69,598
Capital and reserves							
Called-up share capital	4,103	11,037	15,140	4,213	4,145	11,000	15,145
Share premium account	3,023	9,950	12,973	2,406	2,551	9,918	12,469
Capital redemption reserve	322	–	322	149	232	–	232
Revaluation reserve	6,174	515	6,689	4,432	11,981	86	12,067
Profit and loss account	33,884	105	33,989	31,638	29,560	125	29,685
Equity shareholders' funds	47,506	21,607	69,113	42,838	48,469	21,129	69,598

	As at 30 September 2005		As at 30 September 2004	Year to 31 March 2005	
	Ordinary Shares	C Shares	Ordinary Shares	Ordinary Shares	C Shares
Net asset value per share	115.76p	97.88p	101.67p	116.92p	96.04p
Number of shares in issue at balance sheet date	41,038,015	22,074,995	42,133,617	41,453,426	22,000,000
Treasury net asset value per share†	115.76p				
Number of ordinary shares in issue	41,038,015				
Number of ordinary shares held in Treasury	425,000				
Number of listed ordinary shares	41,463,015				

†Shares held in Treasury to be issued at Net Asset Value or above.

Unaudited Statement of Changes in Equity

For the six months to 30 September 2005

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000
Ordinary Shares					
At 1 April 2005	4,145	2,551	232	11,981	29,560
Profit for the period	–	–	–	–	2,606
Net increase in value of investments	–	–	–	1,258	(1,258)
Transfer of prior years revaluation to profit and loss account	–	–	–	(6,485)	6,485
Transfer of permanent diminution in value to profit and loss account	–	–	–	(580)	580
Deferred consideration	–	–	–	–	12
Purchase of shares for cancellation	(48)	–	48	–	(472)
Purchase of shares for Treasury	(42)	–	42	–	(437)
Equity dividends	–	–	–	–	(3,192)
Net issue of shares	48	472	–	–	–
At 30 September 2005	4,103	3,023	322	6,174	33,884

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000
C Shares					
At 1 April 2005	11,000	9,918	–	86	125
Profit for the period	–	–	–	–	629
Net increase in value of investments	–	–	–	408	(408)
Transfer of prior years revaluation to profit and loss account	–	–	–	21	(21)
Equity dividends	–	–	–	–	(220)
Net issue of shares	37	32	–	–	–
At 30 September 2005	11,037	9,950	–	515	105

Summarised Unaudited Statement of Cash Flows

	Six months to 30 September 2005			Six months to 30 September 2004 (as restated)	Year to 31 March 2005 (as restated)		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
	Net cash (outflow)/inflow from operating activities	(1,369)	285	(1,084)	(101)	235	3
Capital expenditure and financial investment	2,479	(418)	2,061	(4,483)	(1,034)	(18,684)	(19,718)
Equity dividends paid	(3,192)	(220)	(3,412)	–	(967)	–	(967)
Net cash outflow before financing	(2,082)	(353)	(2,435)	(4,584)	(1,766)	(18,681)	(20,447)
Financing	(389)	(281)	(670)	1,513	1,010	21,270	22,280
(Decrease)/increase in cash	(2,471)	(634)	(3,105)	(3,071)	(756)	2,589	1,833
Reconciliation of net cash flow to movement in net cash							
(Decrease)/increase in cash	(2,471)	(634)	(3,105)	(3,071)	(756)	2,589	1,833
Net cash at beginning of period	4,100	2,589	6,689	4,856	4,856	–	4,856
Net cash at end of period	1,629	1,955	3,584	1,785	4,100	2,589	6,689
Reconciliation of operating profit before taxation to net cash flow from operating activities							
Profit on operating activities before taxation	2,531	704	3,235	310	7,536	240	7,776
Realised (gains)/losses on investments	(920)	2	(918)	(41)	(1,181)	–	(1,181)
Unrealised gains on investments	(1,258)	(408)	(1,666)	(195)	(7,789)	(86)	(7,875)
Changes in working capital and other non-cash items	(1,722)	(13)	(1,735)	(175)	1,669	(151)	1,518
Net cash (outflow)/inflow from operating activities	(1,369)	285	(1,084)	(101)	235	3	238

Shareholder Information

Dividends

The final and interim dividends are normally paid to shareholders in July and December respectively. 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, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the Company Secretary or Computershare Investor Services PLC.

Share Price

The Company's ordinary shares and C shares are listed on the London Stock Exchange. The mid-price of the Company's ordinary shares and C 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 many financial websites.

Trading Shares

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

- Teather & Greenwood (020 7426 9000)
- UBS Warburg (020 7567 8000)
- Winterfloods (020 7621 0004)

Please call the Company Secretary, (tel: 0131 465 1074), if you or your adviser have any questions about this process.

Notification of 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 Investor Services PLC, under the signature of the registered holder.

Financial Calendar

16 December 2005	Payment of interim dividend
February 2006	Announcement of net asset value at 31 December 2005 and VCT factsheet issued to shareholders
May 2006	Announcement of annual results for the year ended 31 March 2006
May 2006	Posting of annual report for the year ended 31 March 2006
June 2006	Annual General Meeting
July 2006	Payment of final dividend

Shareholder Enquiries

If Baronsmead VCT 2 shareholders have any questions or comments about their investment, please contact:

David Thorp	or	Computershare Investor Services PLC
ISIS EP LLP		PO Box 82
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Email: david.thorp@isisep.com		Email: web.queries@computershare.co.uk
Website: www.baronsmeadvct2.co.uk		

Please contact our Broker Support Team – 08457 99 22 99.*

* Telephone calls may be recorded.

Baronsmead VCT 2 plc is managed by ISIS EP LLP which is regulated by the FSA. Past performance is not necessarily a guide to future performance. Stock markets 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

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

Secretary

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VCT Status Adviser

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*Chairman of the Audit Committee

†Senior Independent Director

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