

# Baronsmead VCT 2 plc



**-2.4%**

Change in Net Asset Value (NAV) per ordinary share to 109.47p

**+77%**

NAV Total Return to ordinary shareholders over five years

**£1.79m**

Subscribed by 230 shareholders after top up offer closed over-subscribed

**£1.96m**

Profits realised from the sale of two unquoted investments

## Performance Summary for the quarter to 31 December 2007

Capital return Ordinary shares	As at 31/12/07	As at 30/09/07	Movement
Total net assets	£68.2m	£68.7m	(0.7)%
Net asset value per share	109.47p	112.19p	(2.4)%
Share price	99.50p	101.00p	(1.5)%
Discount to NAV	9.1%	10.0%	-

## Performance Summary to 31 December 2007

Total return Ordinary shares	3 month%	1 year %	3 year %	5 year %	Since launch %*
Net asset value <sup>1</sup>	(2.42)%	+2.34%	+31.2%	+76.98%	+104.5%
Share price <sup>2</sup>	(1.49)%	+4.42%	+42.8%	+93.85%	+94.7%
FTSE All-share <sup>3</sup>	(0.35)%	+5.32%	+50.1%	+104.65%	+54.4%

\*2 April 1998.

<sup>1</sup>NAV Total return = NAV + reinvested dividends.

<sup>2</sup>Share price Total return = mid to mid share price + re-invested dividends;

Source: Datastream.

<sup>3</sup>Source: Datastream.

## Investment Performance

Steady gains across the unquoted portion of the portfolio were more than offset by lower share prices for the AiM investees in the quarter to 31 December 2007. This latter trend has continued since the period end so that by 31 January 2008, the NAV per share had decreased by a further 1.96p to 107.51p.

The UK stock market is currently anticipating recessionary economic conditions and further downgrades in the ratings of smaller quoted companies are possible. The values of unquoted companies are likely to be less affected by market sentiment and more related to ongoing performance.

It is important to note that the relative health of the portfolio as measured by the 'direction of travel' has remained firm. Debt levels within investee companies are also lower than for some time and so the companies should be more resilient to lower trading levels if these occur.

The sale of Boldon James and RLA at 3.1 times and 3.7 times (respectively) of their original cost demonstrates that focussed well-managed companies can generate good value for their shareholders. The sale of Hawksmere after the period end at 2.5 times cost is a further example, especially as a full provision had been provided against this investment only 18 months ago.

## Investment Activity

During the quarter a total of £1.86 million was invested as follows:

Company	Cost (£000's)	VCT Status
<b>New Investment</b>		
Optimisa	298	Qualifying
Cohort	178	Part qualifying
Plastics Capital	473	Qualifying
Research Now	262	Part qualifying
Mission Marketing Group	247	Qualifying
<b>Total new investment</b>	<b>1,458</b>	
<b>Follow on Investment</b>		
Concateno	72	Non qualifying
Tasty	175	Qualifying
Fishworks	47	Qualifying
Appian Technology	52	Qualifying
Brulines Holdings	58	Non qualifying
<b>Total follow on investment</b>	<b>404</b>	
<b>Total new and follow on investment</b>	<b>1,862</b>	

Since the quarter end, two further unquoted investments were completed at a cost of £2.64 million.

## Realisations

Boldon James and RLA Group were sold during the quarter, realising proceeds of £1,668,000 and £2,293,000 respectively. The respective investments were made in June 2005 and December 2002 and including income received, yielded 3.1 and 3.7 times their original cost. In addition, deferred proceeds of £174,000 were received in respect of Domantis (sold in January 2007) taking its final multiple of proceeds over cost to 4.1 times. After the quarter end, the sale of Hawksmere on 11 January 2008 realised a further profit of £1.10 million.



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## Top Ten Investments

Position as at  
31/12/07 (30/09/07)

			Activity	% of total assets as at 31/12/07
1	(5)	Reed & Mackay	Travel management	3.3
2	(3)	Independent Living Services	Domiciliary care	3.2
3	(4)	Kafévend	Vending services	3.2
4	(2)	Fisher Outdoor Leisure	Distribution of cycle accessories	3.2
5	(6)	Empire World Trade	Fruit supplier	3.1
6	(10)	Hawksmere	Training course provider	3.0
7	(13)	Kidsunlimited	Children's day care	2.7
8	(-)	Scriptswitch	Prescription software	2.5
9	(7)	Crucible Group	Credit management	2.5
10	(10)	The Art Group	Artistic IPR Management and supply	2.4
<b>Total</b>				<b>29.1</b>

## Analysis of Total Assets

	Percentage of total assets 31/12/07	Percentage of total assets 30/09/07
<b>Investment Portfolio</b>		
Unquoted investments	41	45
AiM listed investments	25	27
Listed investments	1	2
<b>Total investment portfolio</b>	<b>67</b>	<b>74</b>
<b>Cash Portfolio</b>		
Interest bearing securities	24	24
Cash	9	2
<b>Total cash portfolio</b>	<b>33</b>	<b>26</b>
<b>Total Assets</b>	<b>100</b>	<b>100</b>

## Analysis of Investment Portfolio by Sector\*

	Percentage of investment portfolio 31/12/07	Percentage of investment portfolio 30/09/07
Business Services	49	43
IT Support Services	16	17
Consumer Markets	15	15
Healthcare	10	14
Media	10	11
<b>Total</b>	<b>100</b>	<b>100</b>

\* Excluding interest bearing securities and cash

## Investment objective

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

Other than the new investments and realisations set out above, the Board is not aware of any significant events or transactions which have occurred between 31 December 2007 and the date of publication of this statement which would have a material impact on the financial position of the Company.

## Top up offer

Applications from 230 existing shareholders totalling £2.5 million were received in December 2007. As the Offer was over subscribed, these applications were scaled back to 69.59%, to provide gross proceeds of £1.786 million. This is the sterling equivalent of the upper limit of €2.5 million allowed under the EU Prospectus Directive July 2005.

Shareholders can access information about their holding in the Company by using the Registrar's website [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor) and registering with their Investor Centre service; by email at [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk); by telephone on 0870 703 0137 (or +44 870 703 0137 from outside the UK).



Baronsmead VCT 2 plc is managed by ISIS EP LLP, which is authorised and regulated by the Financial Services Authority (FSA). For more information about Baronsmead VCT 2 please visit [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk).

ISIS Equity Partners manages the five Baronsmead VCTs. ISIS EP LLP, 100 Wood Street, London, EC2V 7AN. Tel: 020 7506 5600.

All figures as at 31 December 2007 unless otherwise stated. All sources ISIS EP LLP (ISIS Equity Partners) unless otherwise stated. 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 or smaller companies, their potential volatility may increase the risk to the value of, and income from, the investment. Tax rates and reliefs depend on the circumstances of individual investors and may be subject to change. Investors should take their own financial and tax advice before investing, based on their own individual circumstances. VCTs should be regarded as long term in nature. An investment is only suitable for private investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result. ISIS Equity Partners does not give investment advice.