Baronsmead VCT 2 plc

Annual Review & Report
Year ending 31 March 2002

2002

ISIS

Investment Objective

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

Investment Policy

- To invest primarily in a diverse portfolio of 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.

Contents

- Baronsmead VCT 2 plc maintains its position as a top performing VCT within its peer group
- 11 new investments made during the year taking the total equity portfolio to 38 companies
- Dividends totalling 2.80 pence per share for the year
- Net asset value down by 10.5 per cent to 100.54 pence per share versus FTSE All-Share index down 5.7 per cent. Within this overall performance, the AiM portfolio was down by 26.3 per cent over the year compared to the AiM Index, down by 28.2 per cent over the same period. The unquoted portfolio was down by 5.9 per cent over the year
- Total return since launch 20.2 per cent

Baronsmead VCT 2 plc
Net asset value and net asset value total return

Net asset value total return (gross dividends re-invested)
Net asset value

Source: Friends Ivory & Sime

Performance summary

	31 March 2002	31 March 2001	% change
Ordinary share – capital values			
Net asset value per share (net of issue expenses)	100.54p	112.30p	(10.5)
Share price	92.50p	125.00p	(26.0)
(Discount)/premium	(8.0%)	11.30%	–
Net asset value total return*	(8.0%)	(2.90%)	–
Total assets (net of issue expenses)	£41.2m	£45.0m	(8.4)

	Year to 31 March 2002	Year to 31 March 2001	
Revenue and dividends			
Earnings per ordinary share	2.84p	3.94p	(27.9)
Dividends per ordinary share	2.80p	3.90p	(28.2)

*Net asset value total return assuming gross dividends reinvested.

While the performance is disappointing in isolation, it has to be set against the performance of the market as a whole. Not only did the Company outperform the FTSE Smallcap and FTSE AiM indices, it has consistently been one of the top three performers in its own peer group of nine other VCTs launched at the same time.

Achieved results | The NAV at 31 March 2002 was 100.5p per share compared to 112.3p at the previous year-end. This is a reduction of 10.5 per cent over the year, although if the dividends paid to shareholders in the year are added back, the NAV per share would have been 103.3p, a fall in total return of 8.0 per cent over the same period. The comparable reduction in the FTSE All-Share total return index was 3.2 per cent although the more relevant indices for smaller companies, the FTSE SmallCap and FTSE AiM, fell 12 per cent and 28 per cent, respectively. The 10.5 per cent fall in the net asset value can be broken down into individual portfolio components as follows:

Asset Class	Impact on NAV (%)
Listed	(2.8)
AiM	(4.2)
OFEX	(0.5)
Unquoted	(1.7)
Fixed Interest	(1.1)
Net Current Assets	(0.2)

While the performance is disappointing in isolation, it has to be set against the performance of the market as a whole. Not only did the Company outperform the FTSE Smallcap and FTSE AiM indices, it has consistently been one of the top three performers in its own peer group of nine other VCTs launched at the same time. The Board regularly reviews the performance of the Company against this group. The real test for ongoing performance is, of course, the total return achieved by investors over the lifetime of their holdings. It is too early in the life of the Company to assess this accurately, but your Board is confident that the investment strategy being applied by the Managers should yield good results in the long term.

The Board recommends a final dividend of 1.5p per share, which together with the interim dividend of 1.3p per share makes total dividends of 2.8p per share. As I indicated last year, this is less than for the previous year because the income from the portfolio of fixed rate securities is reducing as investments are made in unquoted companies in accordance with our investment objectives.

Clive Parritt
Chairman

Shareholder returns | In terms of investment performance, I believe that any private equity portfolio needs to be considered as a long-term investment and the full returns from such investments may not be seen for some years. To date Baronsmead VCT 2 has benefited from having a sizeable proportion of its initial portfolio in fixed rate securities but now it is better diversified. I am pleased to report that the total return since launch in April 1998 is 20 per cent before taking any VCT tax reliefs into account. This compares to the fall in the FTSE All-Share index of 0.3 per cent over the same four-year period. At this stage the return to original subscribers has therefore comfortably exceeded this widest of UK equity indices and the gap increases further if the benefit of VCT tax reliefs is taken into account.

Percentage investment returns	No VCT tax reliefs	20% income tax reclaim	20% income tax reclaim and 40% CGT deferral
Baronsmead VCT 2	20.2	25.2	50.4
FTSE All-Share		(0.3)	

For shareholders who subscribed in 2000 at either 130p or 137p per share, the returns are of course lower. For instance, the 50.4 per cent grossed up total return in the table above reduces to a negative of 5.9 per cent at the higher subscription price but this is still better than the reduction in the FTSE All-Share index of 8.2 per cent over the same period.

Comparisons can also be made for Baronsmead VCT 2 against other tax efficient alternatives such as ISAs and pension funds. For instance a comparable pension index is the UK All Companies average return (source Lipper Hindsight), which reported a negative 1.1 per cent total return over the period although this is before adding the benefits of reinvesting any income tax reclaim. ISAs too benefit from being in a tax-free environment and so are similar to VCTs but without the initial subscription reliefs. The returns achieved by Baronsmead VCT 2 are positive when compared with most ISAs or pension funds and the effective taxation wrapper makes the Company an ideal vehicle for long-term exposure to this critical sector of the market.

Investment environment | There are some early signs that the business uncertainty of the last year is reducing and the UK economy is beginning to stabilise, albeit at lower levels of stock market and trading confidence. Some sectors have prospered, most notably in consumer markets while those in technology, media and telecommunications will take some time to recover. Also those companies with high bank borrowings are increasingly being subjected by their bankers to increased scrutiny and tighter banking covenants.

Broadly the uplift in a number of unquoted valuations is balanced by those where your Board has decided to make a partial or full provision. The Investment Managers continue to be actively involved at board level with unquoted investee companies and more information on the portfolio is set out in the Managers' Review and in the twenty largest investments.

An important priority of the Investment Managers has been to invest the share capital raised from private investors into appropriate qualifying companies, within three years of subscription. Recently both the UK private equity and AiM markets have seen a reduction in the total number of opportunities and completed transactions. This has created a challenging environment for the managers to achieve their demanding investment targets. Against this background, five new unquoted investments, six AiM subscriptions and five further investments totalling £6.4 million were made in the last financial year. The portfolio grew to 38 'equity' investments by the year-end and it has further increased to 42 by the end of May 2002.

Investment management | The Board operates within the Combined Code for full list companies, including the Turnbull guidelines. Part of this process requires a regular review of all aspects of the workings of your Company, normally conducted by quarterly meetings with the Investment Managers. These cover investment performance, running costs, future projections, compliance issues and meeting other advisers when necessary. There are higher costs to a VCT and private equity portfolios, although I am pleased that the average annual cost at 2.8 per cent of the average portfolio for Baronsmead VCT 2 is lower than many generalist VCTs and other quoted investment trusts with similar portfolios.

By 31 March 2002, the level of qualifying investments exceeded the VCT required ratio of 70 per cent of share capital raised in the two accounting periods to 31 March 2000. On 1 May 2002, PricewaterhouseCoopers were appointed VCT Tax Status Advisers. We thank the previous advisers, BDO Stoy Hayward for the high quality of support and advice which they have provided since inception of your Company.

The Investment Managers, ISIS Capital (formerly named Friends Ivory & Sime Private Equity), have continued to invest in building greater skills and UK coverage. It is one of the largest private equity teams in the VCT market place with 18 investment professionals and a new Manchester Office is opening later this summer to increase the number of new investment opportunities. Their London, Birmingham and Manchester offices, enable them to cover some 75 per cent of the UK in order to stimulate greater deal-flow.

Meeting shareholder objectives and priorities | Your Board wishes to maintain a regular dialogue with shareholders in order to understand your investment objectives and deliver the value you require.

The results of the questionnaire survey of shareholders carried out in April 2002, are provided on pages 16 to 17. Over 700 shareholders responded and the Board would like to thank all respondents for the time and effort and the valuable feed back they have provided. These responses confirm that the existing shareholder policies remain appropriate in order to cater to shareholders' differing needs. In particular this has helped us frame two proposals being put to shareholders at the AGM. One concerns the conversion of the share premium account which will be used to facilitate share buy-backs and capital distributions. The other concerns electronic communication where the Board has decided not to introduce full e-communication services now, but by adopting new articles of association to facilitate possible introduction of such services in later years.

Clearly, shareholders want to take a longer term view of their investment in the Company. 56 per cent of responding shareholders have a preference for capital growth and 80 per cent do not plan to sell their shares in the foreseeable future. These conclusions help the Board to prepare for the end of the first fiscal holding periods in Spring 2003 and to anticipate how the secondary market can be made to operate in an effective way thereafter.

During the year, new 'top up' share issues raised £1 million and another £0.17 million dividends were reinvested. Within the Board's buy-back policy, 201,000 shares were bought back at an average discount of 10.4 per cent during the year. These policies have enabled the share price of Baronsmead VCT 2 to stay ahead of many other VCTs over the last year. To assist in the development of the secondary market by the provision of more information, the Board has decided that in future they will agree the unquoted valuations quarterly as opposed to the present industry practice of half-yearly.

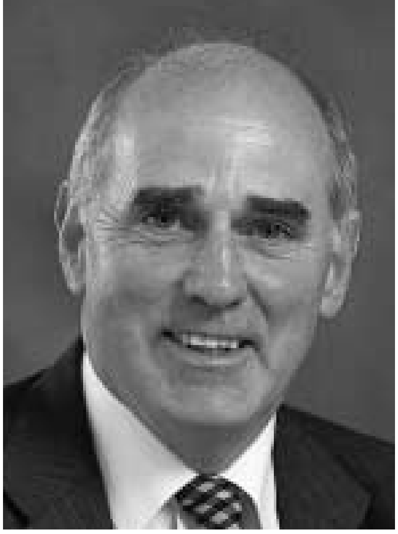
Since May 2001, 13 shareholders workshops have been held in four locations for shareholders of the four Baronsmead VCTs and shareholders from your Company have regularly attended the workshops. Your Board has decided to hold the fourth AGM at the London Offices of ISIS Capital at 100 Wood Street in the City. Presentations will include a more detailed summary of the responses to the questionnaire and the investment story of Biofocus given by its Chief Executive.

Outlook | The next year is likely to see a slow and possibly fragile recovery from the downturn. The increasing diversity of the portfolio should counter further volatility and move us steadily through this period, before calmer and better growth conditions return. The Managers are actively seeking to complete new investments, believing that this is a propitious time in the economic cycle ahead of the typical up swing that follows the uncertain times of the last year.

Clive Parritt
Chairman
15 May 2002

Gary Fraser
Company Secretary

Gareth Banks
Fund Manager



David Thorp
Lead Investment Manager

Michael Probin
Investor Relations Manager

Managers' Review

Increased diversity helps counter the economic downturn, reduces volatility and provides the platform for future growth

Performance | The NAV per share fell steadily throughout the year to 100.5p per share, primarily due to the fall in value of the portfolio of AiM/OFEX/full list shareholdings. Approximately half of this decline came from a down rating in the share prices of the technology sector despite several of these companies performing satisfactorily. SDL and Aortech (both full list) and Biofocus on AiM were in this category. Others did not meet their business plans and this reflected in profit warnings from NMT, Landround, Charterhouse Communications, Giardino and Blooms. Stronger progress in AiM traded companies was evident from Inter Link Foods together with newcomers Murgitroyd, Stagecoach Theatre Arts and Fitzhardinge. The AiM index as a whole, however, fell 28 per cent over the year and this was almost precisely tracked by the AiM companies within the portfolio. During the year this has been the main determinant in the fall in net asset value and the Company's share price.

The strength of Consumer Markets balanced the tougher fortunes for Information Technology companies. Thomas Sanderson (conservatory pleated blinds) and Fat Face (retailers of active outdoor wear) showed strong trading growth as did Tricom as a supplier of replacement domestic heating boilers. All three showed a strong uplift in their value. Tricom has grown to be one of the largest companies in its industry and was able to repay its £630,000 loan stock earlier than planned.

The IT and Media sectors saw part or full provisions in Imerge (audio-visual software), Conclusive Logic (internet security), Demica (banking software) and 4:2:2 (videographic services to television). Provisions were made against both Staffline (blue-collar temporary employment) and James Gilbert (sporting goods) as they were behind their business plans.

Building the portfolio | The number of investments grew to 38 by the year-end. This included the re-inclusion of Top Ten (previously XS Leisure which had been in receivership) but net of three realisations all described within the interim report.

The new investments during the year illustrated the sector-focused philosophy of ISIS Capital. The common thread through these sectors is the Manager's belief in their ability to generate sustainable high margins as well as possessing good growth prospects.

The schedule below sets out the eleven new investments made during the year and the five companies where further capital was subscribed.

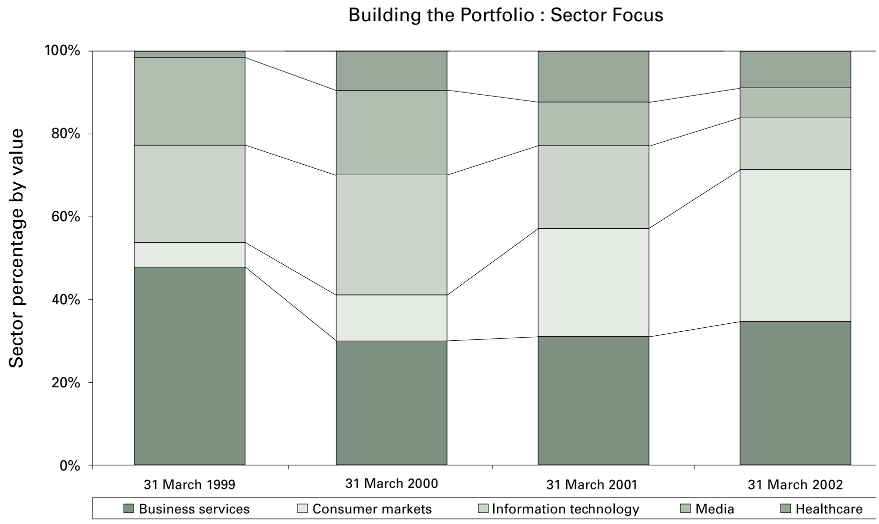
	Location	Sector	Activity	Cost (£'000)	Further investment (£'000)
4:2:2*	Bristol	Media	Multimedia TV		87
AIMS	Towcester	Business services	Environmental services	1,000	
Blooms**	Gloucester	Consumer	Retail garden centres	320	
Bodycare Int	Darlington	Consumer	Beauty and tanning services	1,000	
Capcon**	London	Business services	Stock auditing and surveillance	137	
Conclusive*	Maidenhead	IT	Internet security		123
Demica*	London	IT	Banking software		252
Fitzhardinge**	London	Business services	Property consultancy services	470	
James Gilbert*	Rugby	Consumer	Sports goods		155
Job Opps*	Berkhamsted	Media	Free newspapers		143
kidsunlimited	Wilmslow	Business services	Day-care nursery centres	400	
Murgitroyd**	Glasgow	Business services	Patent attorneys	500	
Neu*Tec Pharma*	Manchester	Healthcare	Drug discovery	317	
Searchspace	London	IT	Intelligence enterprise software	500	
Stagecoach Theatre Arts**	Walton on Thames	Consumer	Performing arts schools	418	
Vectura	Bath	Healthcare	Drug delivery	529	
Totals				5,591	760

* further investment. ** traded on AiM.

The likelihood is that the size of the equity portfolio will grow to more than 50 investees spread across the chosen sectors. The pricing of equities has moved downwards particularly in IT but we consider Media opportunities to be over-priced currently. The former sector does present some advantageous opportunities as long as there are more predictable and repeat revenues from their customers. This is evident in a number of public sectors like healthcare and education where out sourcing and partnerships can better satisfy demand and provide higher service levels.

Portfolio diversity | The portfolio of investee companies is better diversified both by sector and asset class as summarised on page 10. The equity portfolio is split 65:35 between unquoted and combined AiM/OFEX/full list. Early stage companies represent some 18 per cent by value compared to the 25 per cent guideline set by the Board. The 20 largest investments are listed on pages 12 to 15 with details of trading progress and their latest audited results.

The chart below illustrates the changing mix by sector over the last three years.



Investor relations | Two further newsletters, 'VCTs in volatile markets' and 'The market for shares in VCTs' were published in September 2001 and March 2002.

Increasingly close liaison is maintained with the market makers to improve secondary market transactions, which are likely to increase beyond the end of the first holding period in April 2003.

The shareholder workshops and Helpline provide an opportunity to talk regularly with shareholders and their advisers. This dialogue together with the questionnaire responses enables the evolution of VCT best practice in understanding VCT financial planning aspects for individual shareholders.

Outlook | During the next year, the plan is to build the portfolio to approximately 50 equity investments to increase diversity and move towards being more fully invested. Generally realisations have been fewer but some early discussions indicate that opportunities to exit could occur in the unquoted portfolio over the next year.

The Managers remain active in both seeking out faster growth opportunities as well as taking an active role once invested in qualifying companies. It is recognised that many shareholders in Baronsmead VCT 2 take a long-term perspective of their shareholding and our intention is to achieve greater spread of investments so that the long term performance of the underlying portfolio is enhanced.

David Thorp
Lead Investment Manager
for ISIS Capital plc
15 May 2002

Summary of the tests to be satisfied to remain fully qualified as a VCT:

VCT condition	% required
Minimum income from shares and securities	70% of total income
Maximum retention of income	15% of total investment income
Maximum investment in one company or group	15% of the company's value
Minimum investment in qualifying companies	70% of the company's value
Minimum investment in ordinary shares in qualifying companies	30% of total investment in qualifying companies

Three Year Summary

Capital

At 31 March	Shareholders' funds £'000	Net asset value per share p	Net asset value total return* p	Share price p	Premium/ (discount) (note 1) %
1999	8,501	94.31	104.44	90.00	(11.1)
2000	31,045	119.59	134.62	125.00	4.5
2001	45,017	112.30	130.66	125.00	11.3
2002	41,194	100.54	120.15	92.50	(8.0)

* Source: Friends Ivory and Sime plc.

(note 1) Premium/(discount) is the difference between Baronsmead VCT 2's quoted price and its underlying net asset value.

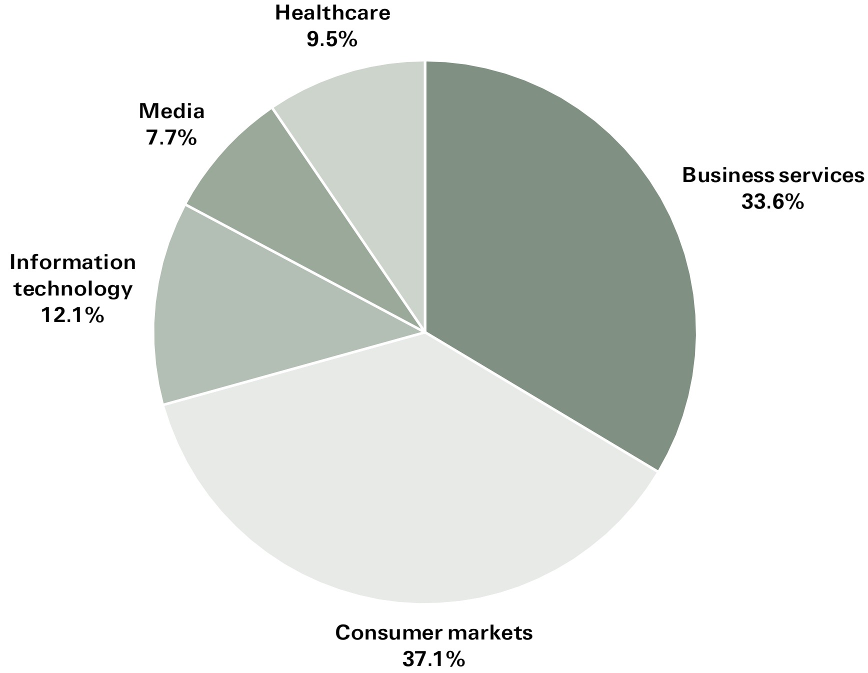
Revenue

Year to 31 March	Gross revenue £'000	Available for ordinary shareholders £'000	Earnings per ordinary share net (note 2) p	Dividend per ordinary share net p
1999	453	219	3.17	3.00
2000	1,397	791	3.36	3.20
2001	2,680	1,576	3.94	3.90
2002	2,135	1,156	2.84	2.80

(note 2) The calculation of earnings per ordinary share is based on the revenue per ordinary activities after taxation and the weighted average number of ordinary shares in issue (see note 7, page 29).

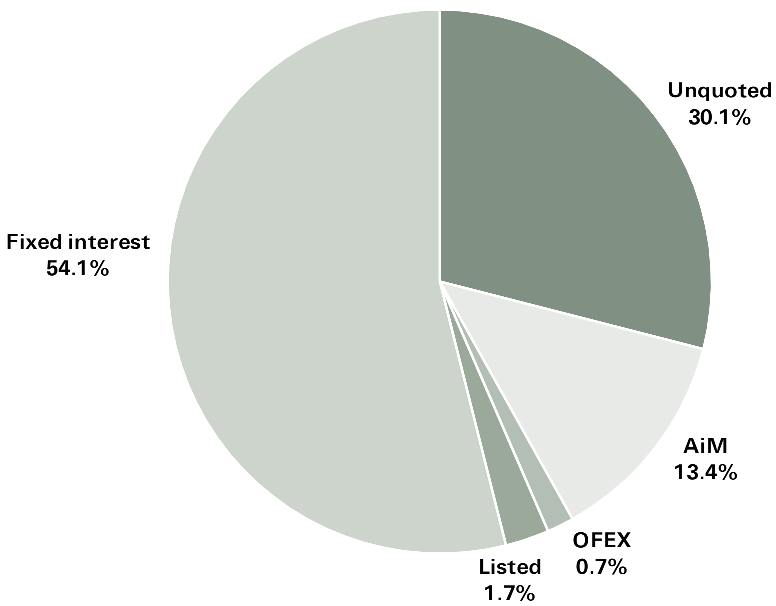
Company Investments
(excluding Fixed Interest portfolio)

Sector Analysis as at 31 March 2002



Total Investments

Market Analysis as at 31 March 2002



Portfolio Valuation at 31 March 2002

Company	Sector	Book Cost £'000	Valuation £'000	% of Total Assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by Other Funds
Unquoted						
Tricom	Business services	46	1,907	4.6	16.2	23.2
Fat Face	Consumer markets	500	1,416	3.4	5.7	34.3
Thomas Sanderson	Consumer markets	667	1,381	3.4	5.6	44.5
AIMS Group	Business services	1,000	1,000	2.4	2.7	25.3
BodyCare International	Consumer markets	1,000	1,000	2.4	11.7	23.4
Kondor	Consumer markets	1,000	900	2.2	3.6	21.3
Job Opportunities	Media	786	841	2.0	3.2	19.3
Demica	Information technology	1,000	675	1.6	2.3	13.8
Vectura	Healthcare	529	529	1.3	1.9	8.6
4:2:2	Media	1,323	529	1.3	18.2	18.2
Searchspace	Information technology	500	500	1.2	–	–
Kidsunlimited	Business services	400	400	1.0	3.3	37.7
Blue 8	Information technology	319	381	1.0	4.7	28.3
Staffline	Business services	814	366	0.9	7.0	42.0
Imerge A	Information technology	500	125	0.3	4.5	13.4
Conclusive	Information technology	457	–	–	1.9	7.4
James Gilbert	Consumer markets	1,051	–	–	14.1	53.9
Total unquoted		11,892	11,950	29.0		
Quoted on AiM						
Inter Link Foods	Consumer markets	627	1,125	2.7	4.6	5.7
Murgitroyd Group	Business services	500	640	1.6	5.0	5.0
Biofocus	Healthcare	680	615	1.5	0.8	0.8
Fitzhardinge	Business services	470	542	1.3	1.8	3.5
Stagecoach Theatre Arts	Consumer markets	418	461	1.1	4.6	4.6
Landround	Business services	566	438	1.1	5.0	6.8
*Neu*Tec Pharma	Healthcare	317	317	0.8	1.3	1.3
ATA Group	Business services	355	260	0.6	4.7	4.8
Blooms of Bressingham	Consumer markets	320	214	0.5	1.7	1.7
Conder Environmental	Business services	340	179	0.4	4.6	4.6
Giardino Group	Consumer markets	288	137	0.3	1.1	1.1
Capcon Holdings	Business services	137	110	0.3	2.4	4.7
NMT Group	Healthcare	351	97	0.2	0.3	0.3
Premier Direct	Consumer markets	202	93	0.2	3.1	2.5
Charterhouse Communications	Media	355	37	0.1	1.2	1.6
Highams Systems Services	Information technology	197	22	0.1	1.2	2.3
Top Ten	Consumer markets	282	14	0.1	0.1	0.1
Total AiM		6,405	5,301	12.9		
OFEX						
Interactive Agency	Business services	500	266	0.7	4.8	4.8
Listed						
SDL	Information technology	270	400	1.0	1.5	3.3
Aortech International	Healthcare	285	180	0.4	0.2	0.2
Sirius Financial Solutions	Information technology	150	93	0.2	0.6	–
Total listed		705	673	1.6		
Fixed interest securities						
UK Treasury 7.5% (07/12/06)		1,975	1,904	4.6		
UK Treasury 5% (07/06/04)		1,697	1,747	4.3		
European Inv Bank 7.625% (07/12/06)		1,648	1,619	3.9		
UK Treasury 6.5% (07/12/03)		1,523	1,537	3.7		
UK Treasury 6.75% (26/11/04)		1,530	1,524	3.7		
Halifax 8.75% (10/07/06)		1,122	1,101	2.7		
Morgan Guaranty Trust 7.75% (30/12/03)		1,047	1,035	2.5		
Bayer Landesbank Giro 8.5% (26/02/03)		1,037	1,028	2.5		
Abbey National 7.625% (30/12/02)		1,051	1,021	2.5		
Deutsche Postbank 6% (16/06/04)		996	1,010	2.5		
Federal Home Loan Bank 5.625% (10/06/03)		994	1,007	2.4		
FNMA Global 6.875% (07/06/02)		1,034	1,005	2.4		
KFW Intl Finance 5.5% (18/06/04)		963	1,002	2.4		
Royal Bank of Scotland 9.25% (03/04/06)		571	552	1.3		
HSBC 9% (23/11/05)		559	549	1.3		
GlaxoSmithKline 8.75% (01/12/05)		559	548	1.3		
Powergen 8.5% (03/07/06)		560	545	1.3		
Finnish Govt 8% (07/04/03)		521	515	1.3		
Barclays 6.5% (16/02/04)		512	510	1.3		
Transco 6.125% (07/12/06)		506	502	1.2		
UK Treasury 8% (05/10/02)		449	447	1.1		
Bayer Vereinsbank 8.625% (15/06/05)		273	267	0.7		
Ford Motor Credit 7.25% (22/02/05)		258	251	0.6		
Landwirtschaft Rentbank 6.75% (24/05/02)		249	251	0.6		
Total fixed interest		21,634	21,477	52.1		
Total investments		41,136	39,667	96.3		
Net current assets			1,527	3.7		
Total assets less current liabilities			41,194	100.0		

A provision of £1,767,000 has been made against unquoted investments as at 31 March 2002 (2001: £1,534,000)

Twenty Largest Investments

Company	Head Office	Valuation Basis	Cost	Valuation
Tricom Supplies Limited	Bedford	Price Earnings	£46,000	£1,907,000

Investment made November 1998

Tricom is a chain of builders merchants supplying plumbing, heating and sanitary ware goods to independent merchants and installers. In November 1998, £2.05 million of institutional equity was raised to finance a management buy-out from its German parent company.

For the year ended 31 December 2001, pre-tax profits were £2.4 million on a turnover of £116.2 million. Net assets were £7.1 million and retained profits were £1.0 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Fat Face Limited	Havant	Price Earnings	£500,000	£1,416,000

Investment made February 2000

Fat Face is a multi-channel retailer supplying branded clothing and accessories to the outdoor active lifestyle market. In February 2000, the company raised £3.5 million to fund expansion and a share reorganisation.

For the year ended to 31 May 2001, pre-tax profits were £1.0 million on a turnover of £14.7 million. Net assets were £1.1 million and retained profits were £0.4 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Thomas Sanderson	Waterlooville	Price Earnings	£667,000	£1,381,000

Investment made March 2001

Thomas Sanderson is the UK market leader for the fabrication and supply of pleated conservatory blinds. In March 2001 £6 million of institutional equity was raised to finance a management buy-out/buy-in.

For the 10 month period to 31 December 2001, pre-tax profits were £0.8 million on a turnover of £20.9 million. Net assets were £2.4 million and retained profits were nil.

Company	Head Office	Valuation Basis	Cost	Valuation
Inter Link Foods PLC	Blackburn	Middle Market price	£627,000	£1,125,000

Investments made August 1998 and January 2001

Inter Link Foods manufactures and sells own label cakes and pastry products to major retail groups. The company joined AiM in August 1998 and raised net proceeds of £2.1 million for expansion including additional product machinery.

For the year ended 30 April 2001, pre-tax profits were £1.7 million on a turnover of £18.7 million. Net assets were £9.0 million and retained profits £0.9 million.

Company	Head Office	Valuation Basis	Cost	Valuation
AIMS Group	Towcester	Cost	£1,000,000	£1,000,000

Investment made February 2002

AIMS Group specialises in the provision of environment health and safety support services for the 'indoor' environment.

In February 2002, £3 million of institutional equity was raised as part of a shareholder restructuring. For the year ended 31 March 2001, profit before tax of the predecessor group was £0.2 million on a turnover of £6.0 million. Retained profits were £0.2 million and net assets were £0.6 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Bodycare International Limited	Nottingham	Cost	£1,000,000	£1,000,000

Investment made November 2001

Bodycare operates 'The Tanning Shop' chain of indoor tanning salons. It is the number one operator in the UK through 44 retail outlets and 56 franchise operations together with the wholesale distribution of tanning equipment and related beauty products. In November 2001, £3 million of institutional equity was raised to roll out the number of outlets and support a shareholder restructuring.

For the year to 31 August 2001, pre-tax profits were £0.7 million on a turnover of £8.3 million. Net assets at 31 August 2001 were £0.9 million and retained profits were £0.5 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Kondor Limited	Ringwood	Cost less provision on ordinary shares	£1,000,000	£900,000

Investment made May 2000

Kondor is a value added distributor of mobile telephone accessories. In May 2000, £6.9 million of institutional equity was raised as replacement capital.

For the year ended 31 December 2000, pre-tax profits were £4.2 million on a turnover of £11.9 million. Net assets were £10.9 and retained losses were £0.2 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Job Opportunities	Berkhamsted	Cost plus capitalised interest	£786,000	£841,000

Investment made September 2000

Job Opportunities publishes free pick-up recruitment magazines. The company raised £5.5 million from institutional shareholders to extend the range of titles across the UK.

For the year ended 31 December 1999, pre-tax losses were £0.9 million on a turnover of £1.7 million. Net liabilities were £0.3 million and retained losses were £0.9 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Demica plc	London	Cost less provision on ordinary shares 25% provision on 'A' shares	£1,000,000	£675,000

Investment made August 2000

Demica designs and supplies internal financial flow software solutions under its Citadel brand to banking and corporate customers. In August 2000, £6.2 million was raised from institutional investors to restructure and develop the business.

For the year ended 30 June 2000, pre-tax losses were £1.8 million on a turnover of £2.3 million. Net liabilities were £4.6 million and retained losses were £1.8 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Murgitroyd Group PLC	Glasgow	Middle Market Price	£500,000	£640,000

Investment made November 2001

Murgitroyd Group provides a range of Intellectual Property Services relating to patents and trademarks through a network of attorneys based in the UK and Europe. It joined AiM in November 2001 and raised £3 million of institutional equity to extend its expansion in European markets.

For the year to 31 May 2001, pre-tax losses were £0.01 million on a turnover of £7.7 million. Net assets at 31 May 2001 were £0.9 million and retained losses were £0.4 million.

	Cost	Valuation
Ten largest investments	**£7,126,000**	**£10,885,000**
Percentage of total investments	17.3	27.4
Percentage of total investments, excluding fixed interest	36.5	59.8

Company	Head Office	Valuation Basis	Cost	Valuation
BioFocus	Sittingbourne	Middle Market price	£680,000	£615,000

Investment made August 2000 and May 2001

BioFocus provides integrated chemistry services for drug discovery to the pharmaceutical and biotechnology industries. The Group's expertise is focused in Combinatorial, Computational and Medicine Chemistry. The company joined AiM in August 2000 and raised £4 million to develop its business.

Subsequently it acquired Cambridge Drug Discovery in May 2001 in a share for share exchange.

For the year ended 31 December 2001, pre-tax profits were £1.9 million on a turnover of £10.9 million. Net assets were £34.4 million and retained profits were £1.0 million.

Fitzhardinge plc	London	Middle Market Price	£470,000	£542,000

Investment made August 2001

Fitzhardinge provides property consultancy services and solutions to the real estate market throughout the United Kingdom and internationally. Fitzhardinge plc acquired the holding company of Milner Consultancies Limited and floated on AiM in August 2001.

For the year to 31 May 2001, Milner Consultancies' pre-tax profits were £5.1 million on a turnover of £38.7 million.

Vectura		Cost	£529,000	£529,000

Investment made April 2001

Vectura is a drug delivery company specialising in particle science for solving pulmonary treatments.

It raised £10.5 million institutional equity facility in April 2001 to accelerate the development of its delivery platforms.

For the year to 31 March 2001, pre-tax losses were £1.1 million on a turnover of £2.7 million. Net assets at 31 March 2001 were £2.1 million and retained losses were £1.1 million.

4:2:2 Limited	Bristol	Initial investment 75% provision on loan stock 100% provision on ordinary shares Further investment – cost	£1,323,000	£529,000

Investment made December 1999 and January 2001

4:2:2 is a provider of digital videographic services to the TV industry established in 1989. In December 1999 £2.25 million of institutional equity was raised to finance a management buy-out.

For the year ended 30 June 2000, pre-tax profits were nil on a turnover of £5.0 million. Net assets were £0.6 million and retained losses were £0.2 million.

Searchspace		Cost	£500,000	£500,000

Investment made April 2001

Searchspace is a developer of intelligent enterprise system software. £10 million of institutional monies was raised for further development.

For the year ended 31 March 2001, a loss before tax of £6.8 million was made on a turnover of £4.3 million. Net liabilities were £1 million and retained losses of £6.8 million.

Company	Head Office	Valuation Basis	Cost	Valuation
Stagecoach Theatre Arts plc	Walton-on-Thames	Middle Market Price	£418,000	£461,000

Investment made December 2001

Stagecoach Theatre Arts operates a network of performing arts schools for young people aged between 4 and 16. It floated on AiM in December 2001 and raised £2.5 million before expenses to continue the expansion of Stagecoach schools in both the UK and overseas.

For the year to 31 May 2001, pre-tax profits were £0.7 million on a turnover of £2.4 million. Net assets at 31 May 2001 were £0.7 million and retained profits were £0.4 million.

Landround PLC	Chester	Middle Market Price	£566,000	£438,000

Investment made July 1999 and January 2000

Landround specialises in travel-based sales promotion assisting a number of major companies to promote their products and services. The company joined AiM in August 1997 and raised more money for expansion and acquisitions in July 1999 and January 2000.

For the year ended 30 September 2001, pre-tax profits were £0.1 million on a turnover of £7.3 million. Net assets were £3.5 million and retained losses were £0.1 million.

Kidsunlimited	Wilmslow	Cost	£400,000	£400,000

Investment made June 2001

Kidsunlimited, based in Wilmslow, manages 32 daycare nursery centres for children under five years old. In June 2001 £4.95 million was raised to buy-out an existing minority shareholder and as development capital to fund the plan to double the number of day centres.

For the year to 30 April 2001, pre-tax losses were £0.7 million on a turnover of £9.8 million. Net assets at 30 April 2001 were £1.1 million and retained losses were £0.7 million.

SDL PLC	Maidenhead	Middle Market price	£270,000	£400,000

Investment made October 1998

SDL is a provider of globalisation solutions which was established in 1992 adapting websites and software into different languages and cultures. In June 1997 the company raised £1.6 million from institutional shareholders to expand its activity both in the UK and overseas.

The company listed on the London Stock Exchange in December 1999.

For the year ended 31 December 2001, pre-tax losses were £2.0 million on a turnover of £33.7 million. Net assets were £31.8 million and retained losses were £4.8 million.

Blue 8	Nottingham	Price Earnings	£319,000	£381,000

Investment made March 2001 and January 2002

Blue 8 technologies is the UK's leading supplier of geographical information software, mainly for emergency services. £3.5 million of institutional equity was raised to finance a management buy-out.

For the period from 27 March 2001 to 31 December 2001, pre-tax profits before amortisation and exceptional items were £0.3 million on a turnover of £3.3 million. Net assets were £0.6 million and retained profits were nil.

	Cost	Valuation
Twenty largest investments	**£12,601,000**	**£15,680,000**
Percentage of total investments	30.6	39.5
Percentage of total investments, excluding fixed interest	64.6	86.2

Over 700 shareholders responded to the questionnaire survey carried out in April 2002. This has provided the Board with valuable information to set policy and strategy for Baronsmead VCT 2 over the coming years, taking full account of shareholders' priorities expressed in their responses.

Summary

The summary conclusions to this questionnaire based on the ranked responses are:

(1) 82 per cent of respondents do not intend to sell their shares in the foreseeable future

(2) 56 per cent of respondents rank capital growth as their main investment objective, while 34 per cent rank income as their priority

(3) Tax planning priorities are more widely spread with the principal emphasis being on tax-free capital growth

(4) 51 per cent of respondents would use all the suggested electronic communication options.

Survey Analysis

Approximately 24 per cent of shareholders fully completed the questionnaire which represents a significant sample size from which to draw conclusions. 100 shareholders also made comments in the open feedback section of the questionnaire, providing a valuable insight to shareholders' views about their investment in Baronsmead VCT 2. Further analysis studied the responses by year of subscription and by differing amounts of initial subscriptions but there was minor variation across the different groups.

Investment Objectives

The percentage of shareholders with capital growth as their main priority by size of holding ranged from 44 per cent to 71 per cent from smallest to largest shareholdings, with an overall average of 56 per cent. The regular payment of tax-free dividends and receipt of tax-free capital distributions were ranked equally as the second investment priority (34 per cent). Investment exposure to a portfolio of smaller UK growth companies invested primarily in unquoted companies was the priority for an average of 10 per cent of respondents.

Tax Planning

Generally the responses illustrate that shareholders have a wide range of tax planning requirements. The degree of financial choice offered by the Company through the dividend reinvestment scheme, regular top-up offers and share-buy back policy helps to accommodate shareholders' differing needs. The fact that 21 per cent of respondents ranked tax efficient investment generally as a first priority implies that shareholders may well be considering VCT investments as an integral part of tax-efficient investment planning. Respondents indicated that their primary tax planning priorities were:

- Tax-free capital growth (31 per cent of respondents)
- Tax-free income and capital distributions (24 per cent)
- Continued capital gains deferral (22 per cent)
- Tax efficient investing generally (21 per cent)
- Estate planning (2 per cent)

Future Plans

Overall, 82 per cent of respondents indicated that they intended to hold the investment for the foreseeable future. Approximately 62 per cent of respondents indicated that they intended holding the investment over the long term (i.e. beyond the next five years).

Of the 31 per cent of respondents who indicated they intended to retain the investment over the medium term, 66 per cent (20 per cent of all respondents) had no plans to sell any shares in the next five years. The 11 per cent of all respondents who indicated they might sell some shares over the medium term indicated they might sell an average of 80 per cent of their shares within 4 to 5 years.

Of the 7 per cent of respondents who indicated they intended to sell shortly after the end of the VCT holding period, 66 per cent (4.6 per cent of all respondents) indicated they intended to sell all of their shares. The remaining 34 per cent (2.4 per cent of all respondents) indicated they intended to sell their shares over the next four year period.

Electronic Communication

Although 51 per cent of respondent shareholders want electronic communication, a sizeable proportion of these also require hard copy correspondence as well. For the 49 per cent minority, one respondent to the survey summed up his view as 'Electronic communication: not right now, maybe in the future'.

For those shareholders who prefer to use electronic communication, they can access information about the Company and communicate with the Investment Managers and the Registrar via the following web sites:

www.friendsis.com/PrivateInvestor/Venture Capital Trusts and www.northernregistrars.com

Conclusions

These responses confirm that the existing shareholder policies set by the Board remain appropriate in order to cater to shareholders' differing needs. This will be important when the Company is able to make capital distributions when the dividend reinvestment scheme will enable the Board also to satisfy the requirements of those who wish to benefit from capital growth instead of income. 24 per cent of shareholders wish there to be regular payment of both tax-free dividends and capital distributions.

Shareholder priorities as regards their own tax planning are varied and so the Board continues to want to be able to give shareholders as much choice as possible whether topping up, holding or selling on the most appropriate terms. The Board would like to thank all respondents for their time and effort and the valuable feedback they have provided.

We are now aware that 5–10 per cent of shareholders beyond their initial holding period may wish to sell their shareholdings in whole or in part after the end of their holding period. Details of buying and selling shares is set out below.

Buying and selling VCT shares on the London Stock Market.

The following notes summarise some consequences of buying and selling existing VCT shares.

Consequences of selling shares that were new VCT shares when acquired

- Provided the VCT shares have been held for the holding period, no initial income tax relief is withdrawn. If the VCT shares are sold within the holding period, initial income tax relief is withdrawn.
- No CGT payable on any profit made on the VCT shares (no allowable loss for losses made on disposal).
- If a gain was deferred at the time of the subscription to the VCT, it comes back into charge as a gain in the year of disposal.
- For part disposals, the part of the gain deferred, which relates to the part of the holding sold, becomes chargeable to tax as a gain in the tax year of disposal. If the gain deferred was less than the amount subscribed, the part of the shareholding on which no gain was deferred, is treated as having been disposed of first.

Tax reliefs on VCT shares purchased through the market

- VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
- Tax-free capital gains on disposal of VCT shares, whenever the disposal occurs.

These tax reliefs are available regardless of the length of time the shares are held. Individuals who are most likely to buy existing VCT shares are those who:

— Anticipate an increase in the NAV per share and the share price

— Require tax-free income

— Do not have capital gains to shelter

— Need an additional and/or flexible scheme for pension planning

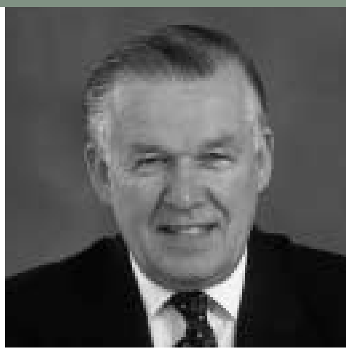
— Want venture capital exposure within a self administered pension scheme.

Source of listed VCT shares

The shares in an existing VCT can be bought and sold via a stockbroker, just like shares in any other listed company. Prior to the relevant anniversary of the issue of shares, there may be a limited supply of shares, as the original subscribers, in order to retain initial income tax relief, may not wish to dispose of their shares during the holding period.

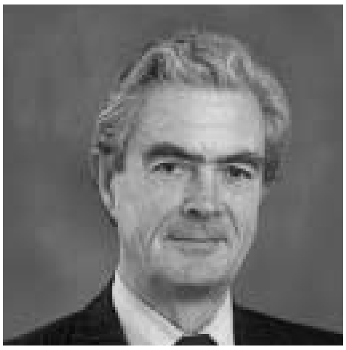
Board of Directors
at 31 March 2002

Clive Parritt
(Chairman)
(age 59) is Chief Executive of The Business Exchange plc, and Non-Executive Chairman of Downing Classic VCT plc, Downing Classic VCT 2 plc and i-Net VCT. He is a member of the Council of the Institute of Chartered Accountants in England and Wales. He was previously National Managing Partner and Chairman of Baker Tilly. He is also a Director of Herald Investment Trust plc.



Godfrey Jillings
(age 61) is Deputy Chairman of Gladedale Holdings plc, and a Director of Baronsmead VCT plc. He was Chief Executive of FIMBRA and a Deputy Chief Executive of the Personal Investment Authority. Prior to that, he held a number of senior executive appointments in National Westminster Bank plc.

Nicholas Timpson
(age 61) was the founder, Chairman and Managing Director of Furnitureland Holdings plc. He is a Director of Scottish and Southern Energy plc and The Vestey Group Ltd. Before founding Furnitureland Holdings plc in 1973, he worked as a Management Consultant for McKinsey &Co.



Gillian Nott
(age 56) was until March 1999 Chief Executive of ProShare (UK) Limited. She is Director of the Financial Services Authority and on the board of a number of listed and unlisted companies including Foreign and Colonial Pacific Investment Trust plc. Previously she worked for the BP Group where she managed their venture capital portfolio. She is Chairman of Baronsmead VCT plc and a Director of Baronsmead VCT 3 plc.

Results and Dividends

The Directors submit the fourth Report and Accounts of the Company for the year ended 31 March 2002.

	£'000
Revenue for the year ended 31 March 2002 available for dividends was	**1,156**
Interim dividend of 1.3p per share paid on 14 December 2001	**(527)**
Final dividend for the year of 1.5p per ordinary share payable on 5 July 2002 to shareholders on the register at 7 June 2002	**(615)**
Transferred to revenue reserve	**14**

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. The Company is an investment company as defined in section 266 of the Companies Act 1985 and has received provisional approval as a Venture Capital Trust from the Inland Revenue. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988. A review of the Company's business during the period is contained in the Chairman's Statement and Managers' Review.

Issue and Buy-Back of Shares

During the year the Company issued 1,085,206 ordinary shares and raised net proceeds of £1,192,000. The Company bought back 201,000 ordinary shares (being 0.5 per cent of closing issued share capital) during the year, at a cost of £187,000.

Directors

Mr C A Parritt and Mr N G L Timpson retire at the fourth Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

The Directors who held office at the end of the year, and their interests in the ordinary shares of the Company were:

		31 March 2002 Ordinary 10p shares	31 March 2001 Ordinary 10p shares
Clive A Parritt	Beneficial and family	**26,617**	22,307
Godfrey F Jillings	Beneficial and family	**120,871**	102,946
Gillian Nott	Beneficial and family	**10,000**	10,000
Nicholas G L Timpson	Beneficial and family	**250,000**	250,000

There have been no changes in the holdings of the Directors between 31 March and 15 May 2002.

No Director has a service contract with the Company.

All Directors are members of the Audit, Remuneration and Nomination Committees. Mr G Jillings and Mrs G Nott are Directors of Baronsmead VCT plc and Mrs G Nott is also a Director of Baronsmead VCT 3 plc which are both managed by ISIS Capital plc.

Corporate Governance

The Board consists solely of independent Non-Executive Directors. The Board has access to a Company Secretary who also attends Board Meetings which are held five times a year. Informal meetings with management are also held between Board Meetings as required. The Company Secretary provides full information on the Company's assets, liabilities and other relevant information to the Board in advance of each Board Meeting. The Board has appointed Mr Timpson as Senior Non-Executive Director in accordance with the Combined Code of Best Practice ('the Code').

The Audit Committee is comprised of all members of the Board. The Committee operates within clearly defined terms of reference. The Committee meets twice a year to review the Interim Financial Statement, Annual Report and Accounts and the terms of appointment of the auditors together with their remuneration.

The Remuneration and Nomination Committees comprise all Directors and have written terms of reference. The Remuneration Committee is responsible for reviewing the terms of the Investment Manager's contract and sets the Directors' remuneration using external comparisons and advice. The Nomination Committee reviews the composition and balance of the Board and would make nominations in the event of a vacancy.

A management agreement between the Company and its Manager sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

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.

Apart from the matters referred to in the following paragraph the Company has complied with the Code throughout the year under review.

In view of its non-executive nature and the requirements of the Articles of Association that all Directors retire by rotation at the Annual General Meeting, the Board considers that it is not appropriate for the Directors to be appointed for a specific term as recommended by the Code. There is no formal training programme for Directors. Full details of duties and obligations are provided at the time of appointment and are supplemented by further details as requirements change.

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

Internal Control

The Board is responsible for ensuring that the Company is managed so that risks to its profitability and assets are minimised. In the pursuit of profit for shareholders it is impossible to eliminate risk. The Board has considered specifically the high level risks which face the Company in areas such as investment management, custody of assets and regulatory matters to ensure that these are fully recognised in the operating methods of the Managers. Furthermore, to fulfil its obligations for maintaining an effective system of internal control, the Board has established an ongoing formal process to ensure that risk exposure is reviewed thoroughly.

The process is based principally on a review of the Managers' existing risk-based approach to internal control. The key functions carried out by the Managers are identified, the individual activities undertaken within those functions are reviewed and the risks associated with each activity as well as the controls employed to minimise those risks are assessed. The resulting matrix is updated by the Managers on a rolling basis and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has, or is, being taken. A formal annual review of these procedures is carried out by the Board and this includes consideration of FRAG 21 and similar reports issued by the Managers and other service providers. A second meeting in the year receives formal updates on any material changes in the risk environment and the action taken, and in addition the Board has instituted a review of major risks at each meeting.

These review procedures have been in place throughout the year and up to the date of approval of the Annual Report and the Board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company at each board meeting. They also review the Company's activities since the previous board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines. If necessary, changes to such policy and guidelines are agreed with the Managers.

The Board has reviewed the need for an internal audit function. The Board has concluded that the systems and procedures employed by the Managers, including the Managers' own internal audit function and the work carried out by the Company's external auditors, 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.

Relations with Shareholders
The Company welcomes the views of Shareholders, and the Annual General Meeting of the Company provides a forum both formal and informal for investors to meet and discuss issues with Directors of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 21 June 2002 can be found in the Notice of Meeting on pages 36 and 37.

Management
Baronsmead Fund Management 2 Limited ('the Manager') manages the investments in unquoted UK companies for the Company. ISIS Capital plc has undertaken to ensure the performance of the obligations of the Manager under the management agreement and will provide the Manager with the necessary resources and personnel to fulfil its obligations. The Manager will also provide or procure the provision of secretarial, administrative and custodian services to the Company. The management agreement was for an initial fixed term of three years ending on 2 March 2001 and may now be terminated by either party on one year's notice to expire at the end of any calendar month. Under the management agreement, the manager receives a fee of 2 per cent per annum of the net assets of the Company. In addition, the Manager receives an annual administration fee of £30,000 and a variable fee of 0.125% on net assets over £5,000,000, subject to annual review. Annual running costs are capped at 3.5 per cent of the net assets of the Company, any excess being refunded by the Manager by way of an adjustment to its management fee.

Cazenove Fund Management Limited is the manager of funds invested in fixed interest securities and cash deposits. The Cazenove agreement is terminable on one month's written notice by the Company or Cazenove and provides for a fee to Cazenove of approximately 0.2 per cent per annum plus VAT of the amount invested in fixed interest securities.

Performance Incentive
The Manager may become entitled to receive a performance fee from the Company calculated by reference to cash distributions made to Shareholders. No performance fee will be paid until after the end of the fifth accounting period of the Company and until cumulative cash distributions to Shareholders exceed a return equivalent to simple interest on the initial subscription price of £1 at a rate of 7.2 per cent per annum, calculated up to the last day of the relevant accounting period. A performance fee will be paid for the fifth and each subsequent accounting period of 20 per cent of the amount by which cumulative distributions exceed this hurdle rate.

Name Change
On 1 December 2001, Friends Ivory & Sime Private Equity plc changed its name to ISIS Capital plc.

ISIS Capital plc – Arrangement Fees
During the year to 31 March 2002, ISIS Capital plc received net income of £84,000 from investee companies in connection with arrangement fees, net of abort costs.

VCT Status Adviser

The Company appointed PricewaterhouseCoopers (PwC) on 1 May 2002 to advise it on compliance with VCT requirements. PwC reviews new investment opportunities, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager but reports 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.

The Company did not have any trade creditors at the year end.

Auditors

PKF has expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Substantial Interests

At 15 May 2002 the Company was not aware of any beneficial interests exceeding 3 per cent of the issued Ordinary Share capital.

Directors' Authority to Allot Shares and to Disapply Pre-emption Rights

The authorities proposed under Resolutions 6 and 7 to be proposed to the AGM are necessary if the Directors are to offer Shareholders the opportunity to add to their investment in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of Shareholders generally and will not dilute their existing interest. Any such issues would only be made at prices greater than net asset value per share and therefore would increase the assets underlying each share. The issue proceeds would be available for investment in line with the Company's investment policy and may be used, in part, to purchase Ordinary Shares in the market.

Resolution 6 renews the Directors' authority to issue Ordinary Shares. This would enable the Directors, until 20 June 2006, to allot up to 9,528,814 Ordinary Shares (representing approximately 23 per cent of the Company's issued share capital as at 15 May 2002).

Resolution 7 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances (see Dividend Reinvestment on page 38). This resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution, or if earlier, the conclusion of the next Annual General Meeting of the Company, to issue ordinary shares for cash without pre-emption rights applying by way of offer to existing Shareholders, under the dividend reinvestment scheme, or otherwise up to a maximum of 4,097,118 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 15 May 2002) on a non-dilutive basis.

Dividend Reinvestment

The Directors offer to Shareholders the opportunity to reinvest their dividends by subscribing for new ordinary shares in the Company.

The substantial tax reliefs available to investors who subscribe to VCTs should be available to qualifying investors reinvesting their dividends in these new ordinary shares. Such reliefs will not be available in any tax year where a Shareholder has already subscribed £100,000 for venture capital trust shares. In the event of the Company being wound up within five years of Shares being issued (under dividend reinvestment or otherwise) then Shareholders may be required to repay their initial income tax relief. This period falls to three years in respect of shares issued on or after 6 April 2000.

The extension of the Directors' authority to allot equity securities for cash without pre-emption rights applying referred to above (see Directors' Authority to Allot Shares and to Disapply Pre-emption Rights) will enable the Directors to allot ordinary shares when dividends are reinvested.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 10 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 7 seeks renewal of such authority until the Annual General Meeting in 2003 (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value of 10p per share nor more than 5 per cent above the average of the market values of those shares for the five business days before the shares are purchased. 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 be cancelled.

Reduction of Share Premium Account

The Companies Act provides that a public company may only purchase its shares out of distributable profits or out of the proceeds of a fresh issue of shares made for the purpose of the purchase and it imposes limitations on the use of the Company's share premium account. The Company is proposing, subject to the passing of Resolution No. 8 and court approval, to reduce the amount standing to the share premium account by £39.96 million and to transfer this to a new special distributable reserve out of which distributions and purchases of shares by the Company may be made.

New Articles of Association

The new articles of association to be adopted under Resolution 10 contain a number of updating changes to the existing articles of association. The proposed amendments to the Company's articles of association are explained below.

Capital Distributions

Article 145 is being amended to permit capital profits to be paid to shareholders in the future, when sufficient distributable reserves become available.

Electronic Communications

The recently enacted Companies Act 1985 (Electronic Communications) Order 2000 and the Electronic Communications Act 2000 set out a legislative regime for the use of electronic communications. As a result of these recent changes in the law, the UK Listing Authority amended its Listing Rules with effect from February 2001 to allow companies to use electronic communications and to send documents to their shareholders and to publish documents on a website in lieu of sending them to such shareholders. Companies are now able to offer their shareholders the opportunity to elect to receive certain shareholder communications in electronic form via the internet rather than in paper form through the post and permit companies to make available facilities for the electronic appointment of proxies. It has been recommended that listed companies should amend their articles to specifically facilitate the use of electronic communications, thus the proposed alterations to the articles of association will allow the Company to take advantage of these changes and make these facilities available to shareholders, should it choose to do so in future. It is therefore proposed to amend the articles of association to expressly provide for the future use of electronic communications by the Company to send reports, accounts and notices of meetings to shareholders and by the shareholders to send appointments of proxies to the Company. The Directors believe that the proposed changes to the articles of association are in the best interests of the Company and its shareholders.

By Order of the Board,

Gary Fraser

Gary Fraser
for Friends Ivory & Sime plc
Secretary

One Charlotte Square
Edinburgh EH2 4DZ
15 May 2002

Statement of Total Return

(Incorporating the Revenue Account of the Company) for the Year Ended 31 March 2002

	Notes	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Gains/(losses) on investments	8	–	(4,410)	(4,410)	–	(3,090)	(3,090)
Income	2	2,135	–	2,135	2,680	–	2,680
Investment management fee	3	(210)	(630)	(840)	(235)	(705)	(940)
Other expenses	4	(335)	–	(335)	(243)	–	(243)
Return on ordinary activities before taxation		1,590	(5,040)	(3,450)	2,202	(3,795)	(1,593)
Taxation on ordinary activities	5	(434)	200	(234)	(626)	211	(415)
Return attributable to equity shareholders	14	1,156	(4,840)	(3,684)	1,576	(3,584)	(2,008)
Dividends in respect of equity shares	6	(1,142)	–	(1,142)	(1,563)	–	(1,563)
Transfer to/(from) reserves	12	14	(4,840)	(4,826)	13	(3,584)	(3,571)
Return per ordinary 10p share							
Basic	7	2.84p	(11.91)p	(9.07)p	3.94p	(8.97)p	(5.03)p

The revenue column of this statement is the profit and loss account of the Company.
All revenue and capital items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the period.

The accompanying notes are an integral part of this statement.

	Notes	2002 £'000	2001 £'000
Fixed assets			
Investments	8	39,667	45,391
Current assets			
Debtors	9	1,082	1,082
Cash at bank and on deposit		2,752	439
		3,834	1,521
Creditors: amounts falling due within one year	10	(2,307)	(1,895)
Net current assets/(liabilities)		1,527	(374)
Total assets less current liabilities		41,194	45,017
Capital and reserves			
Called-up share capital	11	4,097	4,009
Share premium account	12	39,964	39,049
Other reserves			
Capital reserve – realised	12	(1,667)	(823)
– unrealised	12	(1,243)	2,753
Revenue reserve	12	43	29
Equity shareholders' funds	13, 14	41,194	45,017
Net asset value per ordinary share	13	100.54p	112.30p

The financial statements on pages 24 to 34 were approved by the Board of Directors on 15 May 2002 and were signed on its behalf by:

Clive A Parritt (Chairman)

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

Cash Flow Statement
For the Year Ended 31 March 2002

	Notes	2002 £'000	2001 £'000
Operating activities			
Investment income received		1,972	1,790
Deposit interest received		40	290
Underwriting commission received		–	1
Investment management fee		(860)	(867)
Other cash payments		(336)	(234)
Net cash inflow from operating activities	16	816	980
Taxation			
Net taxation (paid)/recovered		(203)	192
Capital expenditure and financial investment			
Purchase of investments		(16,240)	(32,631)
Disposal of investments		18,346	12,116
Net cash inflow/(outflow) from capital expenditure and financial investment		2,106	(20,515)
Equity dividends paid		(1,409)	(1,145)
Net cash inflow/(outflow) before financing		1,310	(20,488)
Financing			
Issue of ordinary shares	11,12	1,220	18,411
Expenses of the issue		(30)	(921)
Buy-back of ordinary shares		(187)	(47)
Net cash inflow from financing		1,003	17,443
Increase/(decrease) in cash		2,313	(3,045)
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash in the year		2,313	(3,045)
Net cash at 1 April 2001/1 April 2000		439	3,484
Net cash at 31 March 2002/31 March 2001	15	2,752	439

The accompanying notes are an integral part of these statements.

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

(b) Valuation of investments

Quoted investments are valued at middle market prices. Unquoted investments are valued by the Directors in accordance with the following rules, which are consistent with the British Venture Capital Association guidelines:

1. Investments which have been made in the last 12 months are valued at cost in the absence of overriding factors.

2. Investments which have been held for more than 12 months are valued using a price earnings ratio (at a significant discount to an appropriate stock market prospective price earnings ratio) in the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost, or a net asset basis.

(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.

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.

Income from fixed interest securities and deposit interest are included on an accruals basis.

(d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except where incurred in connection with the maintenance or enhancement of the value of the Company's assets taking account of the expected long term returns as follows:

– Management fees payable have been allocated 25 per cent to revenue and 75 per cent to capital.

(e) Capital reserves

Capital Reserve – Realised

The following are accounted for in this reserve:

– gains and losses on the realisation of investments
– realised exchange differences of a capital nature
– expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital Reserve – Unrealised

The following are accounted for in this reserve:

– increases and decreases in the valuation of investments held at the year-end.

2. Income

	2002 £'000	2001 £'000
Income from investments		
UK franked	157	103
UK unfranked	1,918	2,287
	2,075	2,390
Other income		
Deposit interest	60	289
Underwriting commission	–	1
Total income	2,135	2,680
Total income comprises:		
Dividends	157	103
Interest	1,978	2,576
Other income	–	1
	2,135	2,680
Income from investments:		
Listed UK	1,739	2,016
Unlisted UK	336	374
	2,075	2,390

3. Investment management fee

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
Investment management fee	210	630	840	235	705	940

The management agreement may be terminated by either party giving 12 months notice of termination. The manager, ISIS Capital plc, receives a fee of 2 per cent per annum of the net assets of the Company. The manager may become entitled to a performance fee from the Company, if at the end of the fifth accounting period the cash distributions to shareholders exceed a return equivalent to simple interest on the initial subscription price of £1 at a rate of 7.2 per cent per annum. The fee which will be paid for the fifth and each subsequent accounting period of 20 per cent of the amount by which cumulative distributions exceed this hurdle rate.

4. Other expenses

	2002 £'000	2001 £'000
Directors' fees	45	41
Remuneration for the auditors and their associates:		
– audit	8	6
– other services to the Company	3	2
Other	279	194
	335	243

5a. Taxation on ordinary activities

	2002 Revenue £'000	2002 Capital £'000	2002 Total £'000	2001 Revenue £'000	2001 Capital £'000	2001 Total £'000
UK corporation tax	434	(200)	234	626	(211)	415

5b. Factors affecting tax charge for year

The revenue account tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2002 £'000	2001 £'000
Return on ordinary activities before taxation	1,590	2,202
Corporation tax at standard rate of 30%	477	661
Effects of:		
Non-taxable dividend income	(47)	(31)
Miscellaneous	4	(4)
Current tax year charge (note 5a)	434	626

6. Dividends

	2002 £'000	2001 £'000
Dividends on equity shares:		
– ordinary – interim 1.3p per share on 40,559,102 shares paid on 14 December 2001 (2001: 1.7p on 40,056,899 shares)	527	681
– ordinary – final proposed 1.5p per share on 40,971,186 shares payable on 5 July 2002 (2001: 2.2p on 40,086,980 shares)	615	882
	1,142	1,563

7. Return per ordinary share

	2002 Revenue p	2002 Capital p	2002 Total p	2001 Revenue p	2001 Capital p	2001 Total p
Basic	2.84	(11.91)	(9.07)	3.94	(8.97)	(5.03)

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £1,156,000 (2001: £1,576,000) and on 40,622,274 (2001: 39,957,070) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Basic capital return per ordinary share is based on net capital loss for the financial year of £4,840,000 (2001: loss £3,584,000), and on 40,622,274 (2001: 39,957,070) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

8. Investments

	2002 £'000	2001 £'000
Listed investments	673	1,515
Quoted on the Alternative Investment Market	5,301	5,349
Quoted on OFEX	266	494
Unquoted investments	11,950	9,703
Listed fixed interest investments	21,477	28,330
Total investments	39,667	45,391

	Listed £'000	Traded on AiM £'000	Traded on OFEX £'000	Unquoted £'000	Listed fixed interest £'000	Total £'000
Opening book cost	270	4,138	500	9,780	28,099	42,787
Opening unrealised appreciation	1,245	1,211	(6)	(77)	231	2,604
	1,515	5,349	494	9,703	28,330	45,391
Movements in the year:						
Purchases at cost	–	2,162	–	4,189	10,769	17,120
Investment written back	–	282	–	–	–	282
Sales – proceeds	–	(308)	–	(763)	(17,126)	(18,197)
– realised gains/(losses) on sales	–	137	–	(885)	(108)	(856)
Transfers – book cost	435	(6)	–	(429)	–	–
(Decrease)/increase in unrealised appreciation	(1,277)	(2,315)	(228)	135	(388)	(4,073)
Closing valuation	673	5,301	266	11,950	21,477	39,667
Closing book cost	705	6,405	500	11,892	21,634	41,136
Closing unrealised (depreciation)/ appreciation	(32)	(1,104)	(234)	58	(157)	(1,469)
	673	5,301	266	11,950	21,477	39,667

	2002 £'000	2001 £'000
Realised losses on sales including investments written back	(574)	(383)
Increase in unrealised appreciation	(4,073)	(2,856)
Deferred consideration on sale of investments	237	149
	(4,410)	(3,090)

	2002 £'000	2001 £'000
Equity shares	12,296	10,737
Fixed income securities	27,371	34,654
	39,667	45,391

9. Debtors

	2002 £'000	2001 £'000
Income tax recoverable	12	215
Prepayments and accrued income	824	718
Other debtors	246	149
	1,082	1,082

10. Creditors (amounts falling due within one year)

	2002 £'000	2001 £'000
Amounts due to brokers	1,195	315
Dividends	615	882
Taxation	231	416
Management and secretarial fees due to the managers	221	242
Other creditors	45	40
	2,307	1,895

11. Called-up share capital

	£'000
Authorised:	
50,500,000 ordinary shares of 10p each	5,050
Allotted, called-up and fully paid:	
40,086,980 ordinary shares of 10p each at 31 March 2001	4,009
545,405 ordinary shares of 10p each at 25 June 2001	54
97,717 ordinary shares of 10p each at 6 July 2001	10
442,084 ordinary shares of 10p each during December 2001	44
(201,000) ordinary shares of 10p each bought back during the year	(20)
40,971,186 ordinary shares of 10p each at 31 March 2002	4,097

12. Reserves

	Share premium account £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000
At 31 March 2001	39,049	(823)	2,753	29
545,405 ordinary shares of 10p each during June 2001	578			
97,717 ordinary shares of 10p each during July 2001	100			
442,084 ordinary shares of 10p each during December 2001	434			
Arising from shares bought back during the year	(167)			
Expenses of issue	(30)			
Loss on realisation of investments		(574)		
Decrease in unrealised appreciation			(4,073)	
Deferred consideration on sale of investments		160	77	
Management fees charged to capital		(630)		
Taxation credited to capital		200		
Retained net revenue for the year				14
	39,964	**(1,667)**	**(1,243)**	**43**

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:

	Attributable net asset value per share		Attributable net asset value	
	2002 pence	2001 pence	2002 £'000	2001 £'000
Ordinary shares (basic)	**100.54**	112.30	**41,194**	45,017

The movements during the year of the assets attributable to the ordinary shares were as follows:

	Ordinary shares (basic) £'000
Total net assets attributable at beginning of the year	45,017
Capital subscribed	1,220
Expenses of issue and buy-back of shares	(217)
Total return for the period	(3,684)
Dividends appropriated in the period	(1,142)
	41,194

Basic net asset value per ordinary share is based on £41,194,000 net assets, and on 40,971,186 ordinary shares, being the number of ordinary shares in issue at the year-end.

14. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds	45,017	31,045
Premium resulting from issue and buy-back of shares	1,112	16,994
Increase in share capital	108	1,417
Expenses of issue and buy-back of shares	(217)	(868)
Dividends in respect of equity shares	(1,142)	(1,563)
Total recognised losses before dividends	(3,684)	(2,008)
Closing shareholders' funds	41,194	45,017

15. Analysis of changes in cash

	At 1 April 2001 £'000	Cash inflow £'000	At 31 March 2002 £'000
Cash at bank and in hand	439	2,313	2,752

16. Reconciliation of net revenue before taxation to net cash inflow from operating activities

	2002 £'000	2001 £'000
Net revenue before finance taxation	1,590	2,202
Investment management costs and fee charged to capital	(630)	(705)
Increase in prepayments and accrued income	(123)	(304)
Increase in other creditors	(21)	84
Taxation on investment income	–	(297)
Net cash inflow from operating activities	816	980

17. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees and financial commitments of the Company as at 31 March 2002.

18. Significant interests

There are no interests of 20 per cent or more of any class of share capital.

Further information on the significant interests is disclosed on page 11.

19. Interest rate risk

	2002			2001		
	Total fixed portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate						
Fixed interest securities	21,477	7.11	903	28,330	6.91	850

Floating rate

When the Company decides to hold cash balances the greater proportion is held at Cazenove Fund Management Limited which yields a higher rate of interest and the remainder is held on a deposit account for the day to day running of the Company. The Benchmark rate which determines the interest payments received on cash balances held is the bank base rate which was 4 per cent as at 31 March 2002.

20. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed in the awareness of such risk and results from detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment in unquoted and AiM listed companies, by its nature, involves a higher degree of risk than investment in the main market. These securities may be more difficult to realise. Further information on the investment portfolio is set out on pages 11 to 15.

21. Financial instruments

During the course of the year the Company held fixed interest investments and cash balances. The Company holds financial assets to invest in profitable UK unquoted companies and companies raising new share capital on the Alternative Investment Market. The fair value is not materially different from the carrying value for all financial assets and liabilities. Short term debtors and creditors are excluded from disclosure as allowed by FRS 13.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which 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 those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report to the Shareholders of Baronsmead VCT 2 plc

We have audited the financial statements of Baronsmead VCT 2 PLC for the year ended 31 March 2002 which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Statement, the Managers' Report and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2002 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors
London
15 May 2002

Notice is hereby given that the Fourth Annual General Meeting of Baronsmead VCT 2 plc will be held at the offices of Friends Ivory & Sime plc, 100 Wood Street, London EC2V 7AN, on 21 June 2002 at 10.30 am for the following purposes:

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

Ordinary Business

1. That the Report and Accounts for the period to 31 March 2002 be received.
2. That the payment of a final dividend of 1.5 pence per ordinary share be approved for shareholders on the register on 7 June 2002.
3. That Mr CA Parritt, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
4. That Mr NGL Timpson, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
5. That PKF be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Ordinary Resolution

6. That:
   (a) the Directors of the Company (the "Directors") be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £952,881 during the period commencing on the passing of this resolution and expiring on 20 June 2006 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and

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

Special Resolutions

7. That subject to the passing of Resolution 6 set out in the notice of this meeting:
   (a) the Directors of the Company (the "Directors") be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities for cash pursuant to the authority given in accordance with section 80 of the Act by that resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:

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

      (ii) the dividend reinvestment plan as more particularly described in the Report of Directors;

      (iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £409,701;

   and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry;

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

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

(a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 4,097,118;

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

(c) the maximum price which may be paid for an Ordinary Share shall be not more than 5 per cent above the average of the market values of the Ordinary Shares for the five business days before the purchase is made;

(d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2003 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and

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

9. That the amount standing to the credit of the share premium account of the Company be reduced by £39,963,996.

10. That the regulations contained in the printed document marked 'A' now produced to the meeting and for the purpose of identification signed by the chairman thereof be and the same are hereby approved and adopted, with effect from the end of this meeting, as the articles of association of the Company in substitution for and the exclusion of all the existing articles of association thereof.

By Order of the Board

Gary Fraser
for Friends Ivory & Sime plc
Secretary
One Charlotte Square
Edinburgh EH2 4DZ
15 May 2002

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

To be valid, a Proxy Card must be lodged with the Company's Registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ at least 48 hours before the meeting. A Proxy Card for use by ordinary shareholders is enclosed. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.

A copy of the existing memorandum and articles of association and a draft of the new articles of association referred to in Resolution 10 marked up to show the differences from the existing articles of association are available for inspection at the registered office of the Company during usual business hours on any weekday (weekends and public holidays excepted) up to and including the close of the Annual General Meeting and will also be available for inspection at the place where the Annual General Meeting is to be held at least 15 minutes prior to and until the close of the meeting.

No Director has a contract of service with the Company.

Dividends

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

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's Investor Relations Manager, Michael Probin.

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 many financial websites.

Trading Shares

The Company's Ordinary 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
- UBS Warburg

Please call Michael Probin if you or your adviser have any questions about this process.

Financial Calendar

20 June 2002	Close date of Offer for Subscription and date by which applications to join the dividend reinvestment scheme must be received by the registrars
21 June 2002	Annual General Meeting
5 July 2002	Final dividend paid to shareholders on register on 7 June 2002
August 2002	VCT Newsletter sent to shareholders
November 2002	Posting of interim report and Offer for Subscription
December 2002	Interim dividend paid

VCT Workshops

Workshops for shareholders and their advisers are being held on the following dates and will be held at the offices of the Investment Managers at 2.30 pm on 17 June 2002 (London/Birmingham)* and 22 July 2002 (London/Edinburgh)*.

Please call Michael Probin if you or your adviser would wish to attend a workshop.

*video conferencing

Ordinary Shares

There are 2,520 holders of Ordinary Shares. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
Over 100,000	21	0.8	3,559,886	8.7
50,001–100,000	91	3.6	6,793,926	16.6
25,001–50,000	288	11.4	10,907,857	26.6
10,001–25,000	684	27.2	11,841,907	28.9
5,001–10,000	629	25.0	4,997,120	12.2
2,001–5,000	699	27.7	2,667,841	6.5
1–2,000	108	4.3	202,649	0.5
Total	2,520	100.0	40,971,186	100.0

Notification of Change of Address

Communications with shareholders are mailed to the registered 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, Northern Registrars Limited, under the signature of the registered holder.

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@isiscapital.co.uk
website:	www.friendsis.com

*Telephone calls may be recorded.

Registrars

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 01484 600 900
website: www.northernregistrars.co.uk

Baronsmead VCT 2 plc is managed by ISIS Capital plc a wholly owned subsidiary of Friends Ivory & Sime plc which is 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.

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

Secretary
Friends Ivory & Sime plc
One Charlotte Square
Edinburgh EH2 4DZ

Registered Office and Investment Managers
ISIS Capital plc
100 Wood Street
London EC2V 7AN

VCT Status Adviser
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ISIS Capital plc – Investment Managers

ISIS Capital plc is a wholly owned subsidiary of Friends Ivory & Sime plc, itself part of the Friends Provident Group. Its focus is on investments in unquoted companies for clients of the Friends Ivory & Sime Group. It is a member of the British Venture Capital Association and is regulated by the Financial Services Authority.

Friends Ivory & Sime is listed on the London Stock Exchange and, with offices in London, Edinburgh and Hong Kong is well-positioned as a global player in the investment business.

With some £34 billion of assets under management, the Friends Ivory & Sime Group is committed to providing its clients with superior investment return and outstanding service.

Investor Relations Manager
Michael Probin 020-7506 1651 *

*Telephone calls may be recorded.

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