Baronsmead VCT 2 plc

2003
Annual review & report
for the year ended
31 March 2003

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.

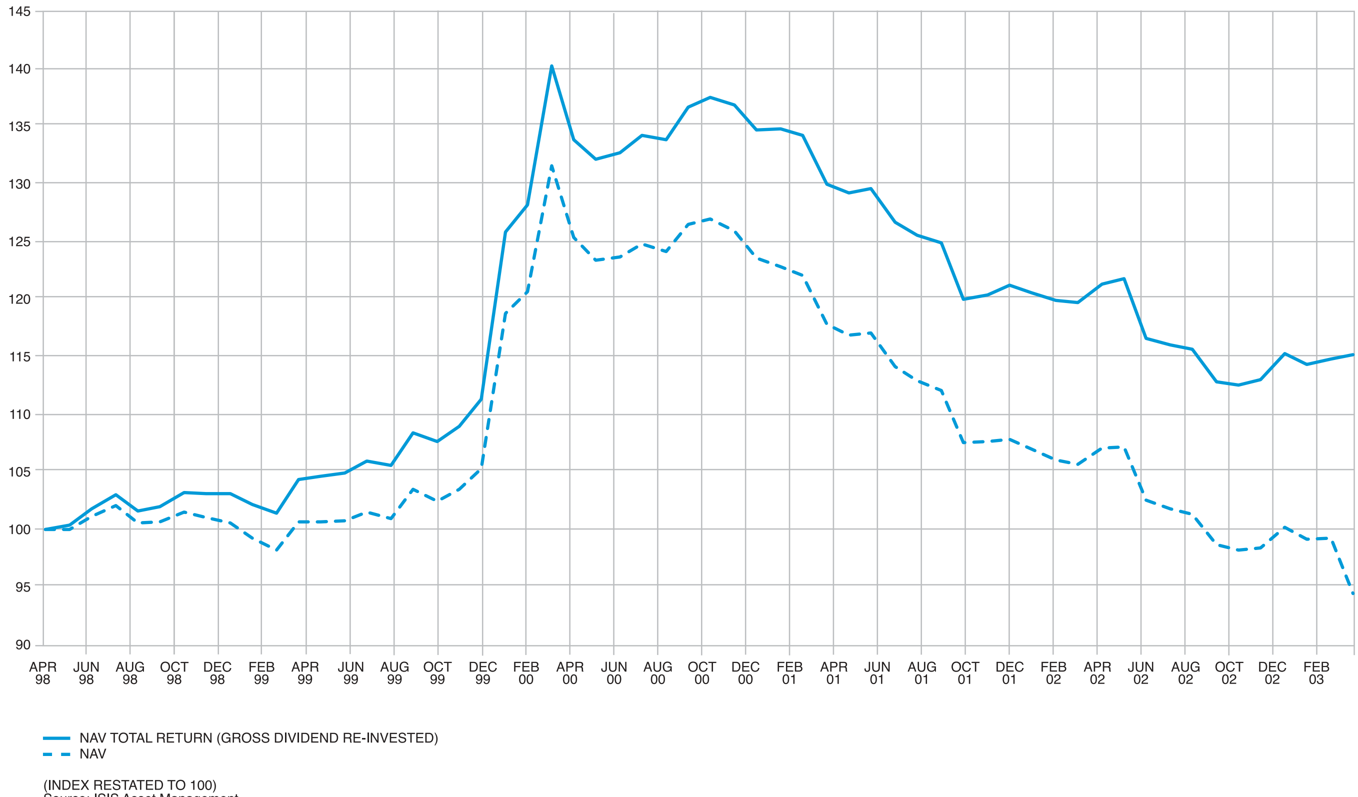
Contents

Financial Highlights

- NAV fell to 96.7p from which 7.0p per share dividends were paid leaving a revised NAV of 89.7p at the year end
- The first capital distribution was made following the sale of Tricom
- Revenue and capital dividends totalling 7.0 pence per share for the year
- Total return of 15.5 per cent since launch in April 1998, ahead of FTSE All-Share Index by 45 per cent over the comparable period
- Full VCT approval confirmed to 31 March 2003

Baronsmead VCT 2 plc

Net asset value and net asset value total return



(INDEX RESTATED TO 100)
Source: ISIS Asset Management

Financial Summary

	31 March 2003	31 March 2002	% change
Ordinary Share – capital values			
Net asset value per share (net of issue expenses)	**89.65p**	100.54p	(10.8)
Share price	**80.00p**	92.50p	(13.5)
Discount	**(10.8%)**	(8.0%)	–
Net asset value total return*	**(3.9%)**	(8.0%)	–
Total assets (net of issue expenses)	**£36.7m**	£41.2m	(10.9)

	Year to 31 March 2003	Year to 31 March 2002	% change
Dividends			
Revenue dividends per Ordinary Share	**2.10p**	2.80p	(25.0)
Capital dividends per Ordinary Share	**4.90p**	–	

	31 March 2003		31 March 2002	
	High	**Low**	High	Low
Share price	**92.5p**	**79.5p**	125.0p	92.5p
Net asset value	**101.9p**	**87.7p**	113.8p	100.5p

*Net asset value total return assuming gross dividends reinvested.

Five Year Summary

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) %	Revenue dividend per Ordinary Share net p	Capital dividend per Ordinary Share net p
1999	8,501	94.31	104.44	90.00	(11.1)	3.00	–
2000	31,045	119.59	134.62	125.00	4.5	3.20	–
2001	45,017	112.30	130.66	125.00	11.3	3.90	–
2002	41,194	100.54	120.15	92.50	(8.0)	2.80	–
2003	**36,651**	**89.65**	**115.49**	**80.00**	**(10.8)**	**2.10**	**4.90**

*Source: ISIS Asset Management plc.

(note 1) – Premium/(discount) is the difference between Baronsmead VCT2's quoted price and its underlying net asset value.

The Company's ordinary shares both issued and bought back are as follows:

	Period to 31 March 1999	Year to 31 March 2000	Year to 31 March 2001	Year to 31 March 2002	Year to 31 March 2003
Issued	9,918,603	16,164,703	14,054,373	921,124	67,012
Dividend reinvestment scheme	–	34,054	116,850	164,082	133,524
Bought back	–	(157,000)	(44,603)	(201,000)	(290,000)
Shares in issue	**9,918,603**	**25,960,360**	**40,086,980**	**40,971,186**	**40,881,722**

Chairman's Statement

Over the last year, the value of qualifying investments and cash/fixed interest securities within the portfolio has held relatively steady at a time when stock markets have fallen sharply. The gain from the sale of our investment in Tricom enabled us to make our first capital distribution to shareholders in March 2003, which is a significant milestone. Baronsmead VCT 2 is now five years old. However we are still building the portfolio as we have the cash resources to make new investments at what we hope is a propitious time for unquoted and AiM opportunities.

Clive Parritt
Chairman

Achieved results

During the year to 31 March 2003 the Net Asset Value per share decreased by 3.9 per cent from 100.5p to 96.7p before the payment of 7.0p dividends per share. The comparable reduction in the FTSE All-Share index (total return) was 29.8 per cent while the falls in the FT indices for smaller companies were higher still. The Board is also aware of the importance of maintaining close control of costs and these have been reduced to 2.7 per cent of net assets (prior to the payment of dividends).

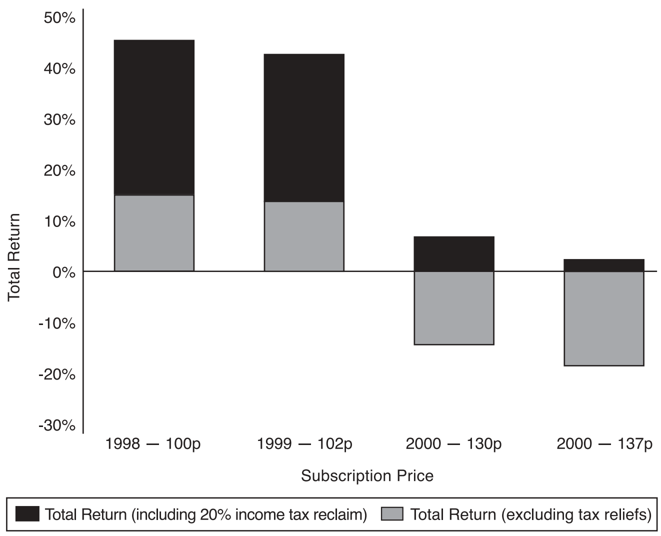
The dividends paid during the year comprised 2.1p per share from income and 4.9 p per share from the distribution of the profit realised from the successful sale of Tricom.

The main measure of investment performance is the total return derived from the increase in net asset value per share assuming dividends are reinvested. The Board regularly reviews the total return of the Company against the FT indices and other VCTs with similar investment policies. During the year your Company has consistently remained in the top three of this group of 34 generalist VCTs and currently is second only to Baronsmead VCT.

Shareholder returns

The table below shows the total returns for shareholders depending on the date of subscription and price paid. The absolute returns are positive for all shareholders if the income tax relief is taken into account.

Baronsmead VCT 2: Shareholder Returns



Note 1. The total returns could be higher for those shareholders, who were able to defer a capital gain on subscription.

The combined annual dividend/distribution for founder shareholders is 4.3 per cent, which increases to 8.1 per cent if aggregated with the reclaimed income tax received on subscription. Corresponding returns (including reclaimed income tax) for subscriptions in 1999 and 2000 are 9.1 per cent, 10.2 per cent and 10.0 per cent, respectively. Bearing in mind these dividends are tax free the gross equivalent percentages are even higher for both standard and higher rate taxpayers.

This illustrates that the annual cash returned to shareholders is much higher than many other investments. As the payments are all tax free for qualifying shareholders, the equivalent return from

Chairman's Statement

a portfolio of conventional equities and bonds would need to be significantly higher than that achieved by Baronsmead VCT 2.

The relatively high level of cash and fixed rate securities within the portfolio over the five-year period has provided an element of protection compared with quoted equity investments, especially as the UK stock market has been significantly lower by some 30 per cent over our first five years. The comparative total return of Baronsmead VCT 2 since inception is 45 per cent ahead of the FTSE All-Share Index.

Investment environment

The Managers are seeing some signs that the economic uncertainty of the last year is diminishing although it is likely that any significant recovery will take some years to feed through to business generally. The approach of the Managers is to invest across its five chosen sectors, which because of their different 'demand cycles' can give greater consistency. For instance the consumer boom is now cooling while IT and media are believed to be emerging from their nadirs. Another encouraging sign is that corporate buyers have begun to show interest in the acquisition of a number of our portfolio companies of which Tricom is a very interesting example recently sold to the BSS Group.

As reported at the interim stage, a number of provisions were made in the unquoted portfolio although latterly the overall news from this part of the portfolio has improved. We now measure portfolio health quarterly and the overall position at the year end is set out within the Managers' Report.

Investment rate

As I indicated in the interim report last Autumn, the level of new investment required to reach the 70 per cent of the funds invested in qualifying companies by 31 March 2003 has been a challenging target. The UK private equity and AiM markets have not only seen a reduction in the total number of suitable proposals but there has also been greater difficulty in converting suitable opportunities into investments.

The Managers have continued to seek suitable VCT qualifying investments that meet their stringent investment criteria and will maintain the quality of the investment portfolio. However in the current economic environment the Managers have experienced difficulties in finalising terms in relation to a number of investments before 31 March 2003. Accordingly, to ensure the Company remains VCT qualifying it has placed funds on a non-interest bearing account (which is not regarded as investments for VCT purposes) pending investment of those funds into further VCT qualifying investments. The loss of interest, as a result of this, is relatively small. I am pleased to confirm that full VCT approval has been received as at 31 March 2003.

Despite the difficult market conditions, 10 new investments have been made in the year to 31 March 2003 and the portfolio has increased to 45 investees after allowing for the sale of three companies.

The Investment Managers, ISIS Equity Partners plc, 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 and the number of investment professionals has increased from 17 to 22 over the last year. This includes a new Manchester Office, which opened in December 2002 together with greater deal generation capacity in both London and Birmingham.

Meeting shareholder objectives and priorities

Taking account of the feed back from shareholders in their responses to our April 2002 questionnaire, a series of shareholder workshops across the UK was held in February and March 2003. This initiative was triggered because approximately a third of our shareholders had held their shares for more than the first three and five year holding periods since their subscription dates in both Spring 1998 and 2000. The presentations by the Managers explained more about the investment process, the performance track record and how VCTs can be used for investment and tax planning purposes.

167 shareholders attended or were sent the workshop presentation and gave feedback on a number of questions, which covered how best to articulate performance for the benefit of shareholders, the share buy-back policy and shareholders' information requirements in terms of both the investments and financial planning. One outcome is that the Board is recommending to shareholders that we produce an abridged annual report for most shareholders while retaining the facility for the full Annual Report and Accounts to be sent to those shareholders who request it.

Chairman's Statement

As part of our wish to extend the level of communication with shareholders, investors will receive their first annual statement from the Company's Registrars detailing the history of their shareholding and dividends paid by the Company.

During the year, 67,012 new shares and another 133,524 shares under the dividend reinvestment scheme were issued to existing shareholders. Using the Board's buy-back policy, 290,000 shares were bought back at a discount of approximately 10 per cent.

We hope many of you will attend our Annual General Meeting to be held on 27 June 2003 at 10.30am at the offices of ISIS Equity Partners plc, 100 Wood Street, London EC2V 7AN. The Lead Investment Manager, David Thorp, will give a presentation on the investment portfolio and current prospects. We have also invited the Managing Director of Staffline, Andy Hogarth, to present the story of this temporary employment business based in Nottingham, into which we invested in September 2000. A buffet lunch will follow the presentations and a short workshop will be available for those shareholders who wish to understand more about private equity and the financial planning possibilities from being a shareholder in Baronsmead VCT 2.

Outlook

We have weathered the recent economic uncertainty better than many investment funds although the UK economy is likely to see a slow and fragile recovery. The Managers remain selective in terms of investment choice and are actively involved in the progress of investees within the unquoted portfolio.

The ability of Baronsmead VCT 2 to return cash to shareholders has become more evident during the last year and there are prospects for the sale of some other investees. The priority during the current year is to increase the size of the portfolio at what will hopefully be a good point in the economic cycle for longer-term investment into above average growth companies.

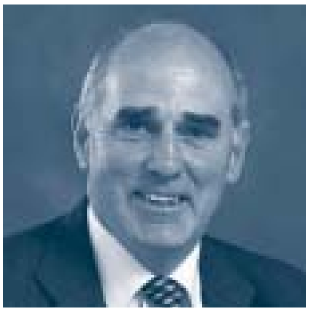
Clive Parritt

Chairman

23 May 2003

Manager's Review

The balance of trading progress within portfolio companies is positive and realisation prospects are improving. The priority over the next year is to make more new investments so that we can take advantage of the anticipated medium-term economic climate.



David Thorp
Lead Investment Manager

Gareth Banks
Fund Manager

Michael Probin
Investor Relations Manager

Gary Fraser
Company Secretary

New investments

Ten new investments were made during the year of which five were described in the Chairman's Interim Statement. There has been an increased level of investment in both IT and Media, sectors that hopefully are at the bottom of their cycles and can prosper over the next five years, which is the typical duration of investments prior to sale.

- Brownsword is a provider of outsourced road-traffic accident investigation services to insurance companies.
- Roland Long Media is a regional marketing services agency, predominantly with automotive brands through local franchised retail outlets.
- Air Music & Media produces budget CDs and DVDs from extensive music and film catalogues.
- Xpertise is an IT training company at the heart of a sector that needs to consolidate.
- Huveaux is building a group of specialist publishing companies. The first acquisition was Vacher Dod as the leading publisher of parliamentary directories and latterly Lonsdale, which publishes revision guides for schools.

Company	Location	Sector	Activity	Investment cost £'000
New unquoted investments				
Brownsword	Manchester	Bus. Services	Motor claims investigators	1,081
Fretwell Downing	Sheffield	IT software	Library systems	565
Rarrigini & Rosso	Peterborough	Bus. Services	Insurance services	527
Roland Long	Bournemouth	Media	Marketing services agency	886
Follow-on investments				
kidsunlimited	Wilmslow	Bus. Services	Day-care nurseries	81
Vectura	Bath	Healthcare	Drug delivery	176
Interlink Foods	Blackburn	Consumer	Cake Manufacturer	2
New AiM-traded investments				
Air Music and Media	Berkhamsted	Media	Music copyright licensor	204
Huveaux	London	Media	Specialist publishers	657
i-documentsystems	London	IT software	Document systems	400
Medal Entertainment	London	Media	Audio-visual publishing	360
VI Group	Stroud	IT software	CAD/CAM software	500
Xpertise Group	Altrincham	Bus. services	Technical IT training	296
Total investments in period				£5,735

Manager's Review

Origination and making new investments

The way in which new unquoted investments are made is very different from quoted fund managers. Approximately 200 to 300 proposals within specified criteria are received annually from which about 1 in 40 are selected and eventually become investments. Typically the origination of such opportunities and then due diligence can take six months.

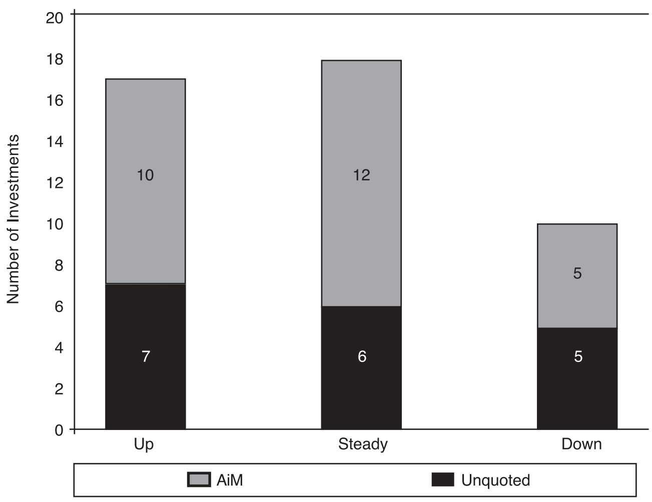
The number of suitable transactions has reduced since 2001 as confidence about the economic environment has fallen. To meet these more difficult market conditions, local contacts have been strengthened with the introducers of transactions and also by making more direct approaches to target companies. The Manchester Office staffed by three executives opened in late 2002. Overall the origination and transacting team has more than doubled over the last three years.

Portfolio performance

As at 31 March 2003, the portfolio consisted of 45 companies. As a measure of portfolio progress, the latest year-end results of each investee are compared with the previous performance to give a sense of the 'direction of travel'. Overall 35 of the portfolio have reported better or steady results while ten are down compared to last year.

Baronsmead VCT 2: Performance of investment portfolio

Direction of Travel as at 31 March 2003



The portfolio of Aim/OFEX/full list investees also recently reflected a positive direction of travel although share values over the year were influenced by overall Aim market trends. This part of the portfolio reduced in value by 14.2 per cent compared to the FT Aim index falling by 35.5 per cent. A number of service based companies helped balance the sharper fall in more technology oriented investees.

Portfolio diversity is set out on page 8 of this report and shows some increase in both media and IT as a percentage of the whole.

Three realisations were made in the year of which Tricom returned over four times cost since 1998 while the sale of our investments in Demica and James Gilbert resulted in almost complete write-offs. Demica supplies banking software and was badly hit by customers shelving most of their spending. James Gilbert was unable to make sufficient headway in its plans to expand its range of sports products and into overseas markets.

One of the first investments made by Baronsmead VCT 2 was Tricom when it achieved the Management Buy-Out from Mannesmann in November 1998. Initially their national UK network of depots was extended and a strategic acquisition made in London to service their plumbing/heating contractors and merchants. Over the last four years, operating profits tripled and now the business has become the second largest UK specialist merchant within BSS, who acquired the business for some £32m. Tricom is a very good example of an established business that achieved significant growth aided by revitalised management and focus with the regular inputs from the ISIS private equity team.

Investor relations

The ISIS booklet 'Taking a closer look at VCTs' was published in autumn 2002 and contains an overview of VCTs and number of case studies. Please contact Michael Probin, the Investor Relations manager, if you would like to receive a copy of the booklet or it can be emailed to you or your adviser. Eight shareholder workshops were held in early 2003 and provided good feed back in how the Managers could communicate more effectively.

Outlook

There are some demonstrable signs that corporate activity both in terms of new investment and realisations of portfolio companies is more active. We retain our sector focus and with an extended UK network, believe that we can influence investees and derive shareholder value from many of our ambitious investees.

The portfolio is likely to grow to over 50 companies during the current year, which sustains diversity and lays the foundations for generating future total returns.

David Thorp

Investment Manager

ISIS Equity Partners

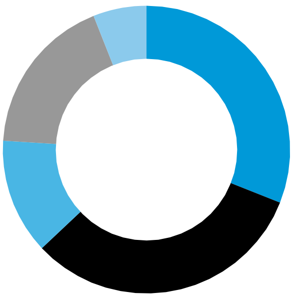
23 May 2003

Investment Classification

Portfolio by Sector . . .

Company Investments (excluding fixed interest portfolio)

Sector Analysis as at 31 March 2003

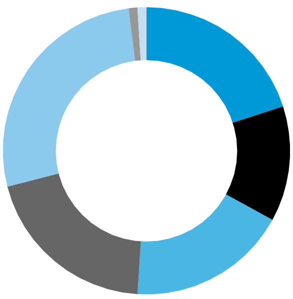


Consumer	**31%**
Business services	**32%**
IT support services	**13%**
Media	**18%**
Healthcare	**6%**

. . . and by Asset Classification

Total Investments

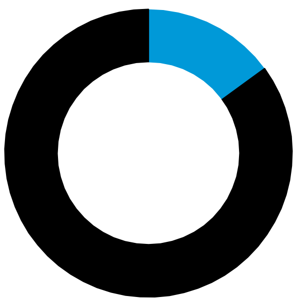
Market Analysis as at 31 March 2003



Unquoted – loan stock	**20%**
Unquoted – ordinary/preference shares	**13%**
AiM	**18%**
Fixed interest	**20%**
Net current assets	**27%**
Listed	**1%**
OFEX	**1%**

. . . and by Development Stage

by Value as at 31 March 2003



Early stage	**15%**
Late stage	**85%**

Investment Portfolio

Portfolio Valuation at 31 March 2003

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						
Thomas Sanderson	Consumer markets	667	1,675	4.6	6.2	49.8
AIMS Group	Business services	1,000	1,313	3.6	12.7	25.3
Brownsword	Business services	1,081	1,081	2.9	17.3	22.7
BodyCare International	Consumer markets	1,000	1,000	2.7	11.7	23.3
Job Opportunities	Media	786	928	2.5	3.6	21.4
Kondor	Consumer markets	1,000	900	2.5	3.6	21.4
RLA Media	Media	886	886	2.4	11.3	18.7
Fat Face	Consumer markets	500	881	2.4	5.7	34.3
Vectura	Healthcare	705	705	1.9	1.9	10.0
kidsunlimited	Business services	481	539	1.5	4.1	46.9
Fretwell Downing	IT support services	552	519	1.4	4.3	20.2
Searchspace	IT support services	500	500	1.4	0.0	0.0
Rarrigini & Rosso	Business services	527	474	1.3	3.5	16.5
Blue 8	IT support services	319	445	1.2	5.4	32.4
Staffline	Business services	814	366	1.0	7.0	42.0
422	Media	1,322	–	0.0	18.2	18.2
Conclusive	IT support services	457	–	0.0	1.9	7.4
Imerge	IT support services	500	–	0.0	4.4	13.4
Total Unquoted		**13,097**	**12,212**	**33.3**		
OFEX						
Chemistry Communications	Business services	500	310	0.9	4.8	4.8
Total OFEX		**500**	**310**	**0.9**		
Quoted on AiM						
Huveaux	Media	657	960	2.6	5.2	6.6
Inter Link Foods	Consumer markets	629	927	2.5	3.4	3.8
Murgitroyd Group	Business services	500	448	1.2	5.0	5.0
Medal Entertainment & Media	Media	360	440	1.2	4.9	7.3
Fitzhardinge	Business services	470	435	1.2	1.3	2.7
Landround	Business services	566	392	1.1	5.0	6.8
i-documentsystems	IT support services	400	375	1.0	2.4	3.6
Stagecoach Theatre Arts	Consumer markets	418	349	1.0	4.6	4.6
VI Group	IT support services	500	343	0.9	6.2	8.0
ATA Group	Business services	355	320	0.9	0.5	0.6
Xpertise Group	Business services	296	296	0.8	14.9	25.4
*Neu*Tec Pharma	Healthcare	317	274	0.7	0.9	0.9
Conder Environmental	Business services	340	204	0.6	4.6	4.6
Air Music & Media	Media	204	178	0.5	2.0	3.4
Biofocus	Healthcare	680	165	0.4	1.3	1.3
Premier Direct	Consumer markets	202	142	0.4	2.9	2.4
Giardino Group	Consumer markets	288	115	0.3	1.1	1.1
Blooms of Bressingham	Consumer markets	320	98	0.3	1.4	1.4
Capcon Holdings	Business services	137	95	0.3	1.9	3.7
NMT Group	Healthcare	351	21	0.1	0.3	0.3
Charterhouse Communications	Media	355	19	0.1	1.2	1.6
Top Ten	Consumer markets	282	15	0.0	0.2	0.2
Highams Systems Services	IT support services	197	14	0.0	1.2	2.3
Total AiM		**8,824**	**6,625**	**18.1**		
Listed						
SDL	IT support services	270	227	0.6	1.1	2.5
Sirius Financial Solutions	IT support services	285	100	0.3	0.6	–
AorTech International	Healthcare	150	16	0.0	0.4	0.3
Total Listed		**705**	**343**	**0.9**		
Fixed interest						
UK Treasury 5% 07/06/04		2,104	2,191	6.0		
Federal Home Loan Bank 5.625% 10/06/03		994	1,004	2.7		
Powergen 8.5% 03/07/06		560	552	1.5		
UKIL 2.5% 20/05/03		538	540	1.5		
BAE Sys CALS 7.45% 29/11/03		532	535	1.4		
Barclays 6.5% 16/02/04		512	512	1.4		
UK Treasury 6.5% 07/12/03		510	511	1.4		
Finnish Govt 8% 07/04/03		521	500	1.4		
UK Treasury 7.5% 07/12/06		302	304	0.8		
Bayer Vereinsbank 8.625% 15/06/05		273	262	0.7		
Ford Motor Credit 7.25% 22/02/2005		258	244	0.7		
Total fixed interest		**7,104**	**7,155**	**19.5**		
Total investments		**30,230**	**26,645**	**72.7**		
Net current assets			**10,006**	**27.3**		
Total assets less current liabilities			**36,651**	**100.0**		

Provisions of £2,918,000 has been made against unquoted investments at 31 March 2003 (31 March 2002: £3,550,000).

*Funds managed by ISIS Equity Partners plc.

Twenty Largest Investments

Thomas Sanderson Limited *Waterlooville*

First Investment: March 2001
Cost: £667,000
Valuation: £1,675,000
Valuation Basis: Discounted price earnings

Thomas Sanderson is an assembler and seller of pleated conservatory blinds and external patio awnings. The company markets its product directly and through other mediums such as direct mail and television advertising. Thomas Sanderson is the market leader of pleated blinds.

	2001	16 months to 31 December 2000
	£ million	£ million
Sales	**24.2**	25.1
Profit before tax	**3.5**	2.2
Retained profit	**–**	1.5
Net assets	**2.3**	3.3

AIMS Group Services Limited *Towcester*

First Investment: February 2002
Cost: £1,000,000
Valuation: £1,313,000
Valuation Basis: Discounted price earnings

AIMS Group specialises in the provision of environmental health and safety support services for the 'indoor' environment. The main areas of focus are ensuring customers comply with legislation on air, water and fire safety, health and safety, disability and asbestos. AIMS Group plans to build the company through a combination of organic growth and complementary acquisitions.

Year ended 31 March	2002	2001
	£ million	£ million
Sales	**9.4**	6.0
Profit before tax	**1.1**	0.2
Retained profit	**0.4**	0.2
Net assets	**2.0**	0.6

Brownsword *Manchester*

First Investment: December 2002
Cost: £1,081,000
Valuation: £1,081,000
Valuation Basis: Cost

Brownsword provide outsourced road traffic accident investigation services to insurance companies. In December 2002, £4.0 million was raised to fund a replacement capital deal.

Year ended 31 July	2002	2001
	£ million	£ million
Sales	**4.0**	2.9
Profit before tax	**0.8**	0.4
Retained profit	**0.3**	0.1
Net assets	**0.8**	0.5

BodyCare International Limited *Darlington*

First Investment: November 2001
Cost: £1,000,000
Valuation: £1,000,000
Valuation Basis: Cost

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. In addition, BodyCare owns BodyCare Direct, the UK's leading wholesale dealer and distributor of tanning equipment and related beauty products.

Year ended 31 August	2001
	£ million
Sales	8.3
Profit before tax	0.7
Retained profit	0.5
Net assets	0.9

Huveaux *London*

First Investment: March 2003
Cost: £657,000
Valuation: £960,000
Valuation Basis: Middle market price

Huveaux is a publishing and media group with a strategy to expand into the government and educational sectors. The Group has made two acquisitions to date – Vacher Dod Publishing (parliamentary directories) and Lonsdale (school revision guides).

Year ended 31 December	2002
	£ million
Sales	**1.1**
Profit before tax	**0.4**
Retained profit	**0.1**
Net assets	**6.1**

Twenty Largest Investments

Job Opportunities Limited *Berkhamstead*

First Investment: September 2000
Cost: £786,000
Valuation: £928,000
Valuation Basis: Cost plus capitalised interest

Job Opportunities publishes free pick-up recruitment magazines which are distributed through petrol stations, supermarkets and other public places. Baronsmead VCT 2 invested when Job Opportunities published nine titles. 17 titles are now published and the company has nationwide coverage. There has been a significant push towards public sector recruitment to reflect the growth in that industry.

Year ended 31 December	**2002**	16 months ended 31 December 2001
	Draft	
	£ million	£ million
Sales	**10.2**	11.7
Loss before tax	**1.2**	5.8
Retained loss	**1.2**	5.8
Net liabilities	**6.5**	5.3

Inter Link Foods PLC *Blackburn*

First Investment: August 1998
Cost: £629,000
Valuation: £927,000
Valuation Basis: Middle market price

Inter Link Foods manufactures and sells own label cakes and pastry products to major retail groups. The company joined AIM in August 1998 and has made five acquisitions since flotation adding both production capacity and new clients. In 2001 it was voted AIM company of the year.

Year ended 30 April	**2002**	2001
	£ million	£ million
Sales	**46.0**	18.7
Profit before tax	**2.7**	1.7
Retained profit	**1.5**	0.9
Net assets	**10.5**	9.0

Kondor Limited *Ringwood*

First Investment: May 2000
Cost: £1,000,000
Valuation: £900,000
Valuation Basis: Cost less 100% provision ordinary shares

Kondor is a value added distributor of mobile telephone accessories. The company sources packages and distributes branded and private label accessories to the leading multiple and independent retailers in the UK.

Year ended 31 December	**2001**	2000 (10 months)
	£ million	£ million
Sales	**9.7**	8.2
(Loss)/profit before tax and exceptional items	**(0.2)**	0.8
Retained (loss)/profit	**(8.1)**	0.2
Net assets	**2.8**	10.9

RLA Media *Bournemouth*

First Investment: December 2002
Cost: £886,000
Valuation: £886,000
Valuation Basis: Cost

RLA is a regional marketing services agency, predominantly servicing national and multinational brands selling through local outlets. £2.4 million was raised in December 2002 to fund a replacement capital deal.

Year ended 31 May	**2002**
	£ million
Sales	**9.4**
Profit before tax	**0.4**
Retained profit	**0.1**
Net assets	**1.4**

Fat Face Limited *Havant*

First Investment: February 2000
Cost: £500,000
Valuation: £881,000
Valuation Basis: Discounted price earnings

Fat Face is a multi-channel retailer supplying branded clothing and accessories to the outdoor active lifestyle market. The company designs, sources, distributes and retails its product. At August 2002 Fat Face had grown to 53 UK retail outlets from 28 at the date of the investment in February 2000.

Year ended 31 May	**2002**	2001
	£ million	£ million
Sales	**21.5**	14.7
Profit before tax	**2.4**	1.7
Retained profit	**0.9**	0.6
Net assets	**3.2**	2.3

Twenty Largest Investments

Vectura Limited *Bath*

First Investment: April 2001
Cost: £705,000
Valuation: £705,000
Valuation Basis: Cost

Vectura is a drug delivery company specialising in particle science for solving pulmonary treatments. It raised £10.5 million of institutional equity facility in April 2001 to accelerate the development of its delivery platforms.

Year ended 31 March	2002	2001
	£ million	£ million
Sales	**3.2**	2.7
Loss before tax	**2.7**	1.1
Retained loss	**2.7**	1.1
Net assets	**12.8**	2.1

kidsunlimited Limited *Wilmslow*

First Investment: June 2001
Cost: £481,000
Valuation: £539,000
Valuation Basis: Cost plus capitalised interest

kidsunlimited is the UK's third largest provider of day care facilities to children under five years old. As at August 2002, the company operated 34 sites through a combination of owned nurseries and those located within the workplace.

Year ended 30 April	2002	2001
	£ million	£ million
Sales	**9.2**	9.8
Loss before tax	**1.9**	0.7
Retained loss	**1.9**	0.7
Net assets	**4.1**	1.1

Fretwell Downing Limited *Sheffield*

First Investment: April 2002
Cost: £552,000
Valuation: £519,000
Valuation Basis: Cost plus capitalised interest less 100% provision on ordinary shares

Fretwell Downing provides software solutions to public, research and corporate libraries across the UK, the USA and Australia. In April 2002, £3.2 million of institutional equity money was raised.

Year ended 31 May 2002	2002
	£ million
Sales	**4.7**
Loss before tax	**1.5**
Retained loss	**1.5**
Net assets	**2.8**

Searchspace *London*

First Investment: April 2001
Cost: £500,000
Valuation: £500,000
Valuation Basis: Cost

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

Year ended 31 March	2002	2001
	£ million	£ million
Sales	**6.3**	4.3
Loss before tax	**11.7**	6.8
Retained loss	**10.7**	6.8
Net assets	**(10.3)**	(1.0)

Rarrigini & Rosso *Peterborough*

First Investment: April 2002
Cost: £527,000
Valuation: £474,000
Valuation Basis: Cost plus capitalised interest less 100% provision on ordinary shares

Rarrigini & Rosso provides business support services to the general insurance market. It raised £5.5 million in April 2002 to launch a new service provider product ('24/7') designed to meet all the IT needs of the general insurance broker.

Year ended 31 August	2002	2001
	£ million	£ million
Sales	**3.5**	5.3
Loss before tax	**2.8**	5.1
Retained loss	**2.0**	4.5
Net assets	**3.4**	0.2

Twenty Largest Investments

Murgitroyd Group *Glasgow*

First Investment: November 2001
Cost: £500,000
Valuation: £448,000
Valuation Basis: Middle market price

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.

Ten months ended 31 May	2002	Year ended 31 July 2001
	£ million	£ million
Sales	**4.9**	7.7
Profit before tax	**0.3**	–
Retained profit/(loss)	**0.1**	(0.4)
Net assets	**9.6**	0.9

Blue 8 Technologies Limited *Nottingham*

First Investment: March 2001
Cost: £319,000
Valuation: £445,000
Valuation Basis: Price earnings

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.

Year ended 31 December	2002	Period from 27 March 2001 to 31 December 2001
	£ million	£ million
Sales	**4.6**	3.3
Profit before tax, amortisation and exceptional items	**0.3**	0.3
Retained profit	**0.2**	–
Net assets	**0.9**	0.6

Medal Entertainment & Media *London*

First Investment: August 2002
Cost: £360,000
Valuation: £440,000
Valuation Basis: Middle market price

Medal Entertainment & Media acquired Leisureview, a video publishing business, and Fountain, the UK's largest independent TV studio, in August 2002. The intention is to build a significant audio visual publishing business.

Six months ended 30 September	2002
	£ million
Sales	**0.6**
Loss before tax	**0.2**
Retained loss	**0.2**
Net assets	**5.5**

Fitzhardinge plc *London*

First Investment: August 2001
Cost: £470,000
Valuation: £435,000
Valuation Basis: Middle market price

Fitzhardinge provides property consultancy services and solutions to the real estate market throughout the United Kingdom and internationally.

Year ended 31 December	2002	Period from 10 August 2001 to 31 December 2001
	£ million	£ million
Sales	**38.2**	15.3
Profit before tax	**3.2**	2.1
Retained profit	**1.3**	1.1
Net assets	**28.4**	27.1

Landround plc *Chester*

First Investment: July 1999
Cost: £566,000
Valuation: £392,000
Valuation Basis: Middle market price

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.

Year ended 30 September	2002	2001
	£ million	£ million
Sales	**7.1**	7.3
Profit before tax	**0.8**	0.1
Retained profit/(loss)	**0.3**	(0.1)
Net assets	**3.7**	3.5

Tax Benefits for Shareholders

Tax benefits for individuals

The following is a summary of the main tax benefits available to individuals who subscribe for or purchase shares in a VCT. Investors are recommended to take professional advice as to how these might apply to their own circumstances.

Venture Capital Trusts are fully listed companies whose shares are traded on the London Stock Exchange. VCTs invest in small unquoted companies, which includes companies whose shares are traded on AIM, that carry on qualifying trading activities mainly in the UK.

To obtain VCT tax reliefs, a VCT investor must be a 'qualifying individual' over the age of 18 with UK taxable income who is UK resident for tax purposes. An eligible investor can invest up to £100,000 per annum in VCT shares. This annual limit includes subscriptions for new VCT shares and investments in existing shares and includes shares issued through a VCT dividend reinvestment scheme.

No tax is payable by a VCT on any income (other than interest) that arises within the VCT and any gains it makes on the disposal of its investments are free of tax. Furthermore, provided the VCT has sufficient distributable reserves, these gains can be distributed tax-free to shareholders.

Tax reliefs on subscription for new VCT shares

The following tax reliefs are available on subscription for new shares provided no more than £100,000 is invested in VCT shares in any one tax year.

1. Initial Income Tax relief of 20%.
   This initial income tax relief will be withdrawn if the investor does not hold the shares for a minimum period of five years for VCT shares issued before 5 April 2000 and three years for shares issued thereafter ('the holding period').
2. Capital Gains Tax (CGT) deferral.
   The investor can defer paying the CGT on all or part of a realised capital gain. Such a gain may arise either from the disposal of an asset or from a gain coming into charge that had previously been deferred. That disposal or chargeable event must have occurred during the 12 months before or during the 12 months after the date of the issue of the VCT shares. The CGT deferral is conditional on the investor having an income tax liability and obtaining some initial income tax relief.

   The deferred gain becomes chargeable when there is a disposal of the VCT shares; the investor becomes non-UK resident within the holding period; or the initial income tax relief is withdrawn because of a breach of the VCT rules.
3. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
4. Capital gains on disposal of VCT shares are tax free, whenever the disposal occurs.

Sources of new VCT shares

- Offers for subscription
- Dividend reinvestment scheme for the existing shareholders of a VCT

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 (listed VCT shares)

1. VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
2. 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.

Consequences of disposing of shares which were existing shares when bought

- No CGT payable on profits made on VCT shares (no allowable loss for losses made on disposal)
- There is no required holding period for these shares but on a part disposal, shares acquired earliest (subscribed or purchased) will be treated as disposed of before later acquisitions.

Estate Planning

If an investor dies owning VCT shares they form part of their estate for inheritance tax purposes because they are quoted shares. If a qualifying individual inherits VCT shares, VCT reliefs are retained provided the value of the shares inherited and acquired in that tax year does not exceed the £100,000 limit.

On death, no CGT is payable on any gain that was deferred at the time of the investment or on any increase in the value of VCT shares themselves

If death occurs within the holding period, the initial income tax relief is not withdrawn.

Board of Directors

as at 31 March 2003

Clive Parritt (Chairman)

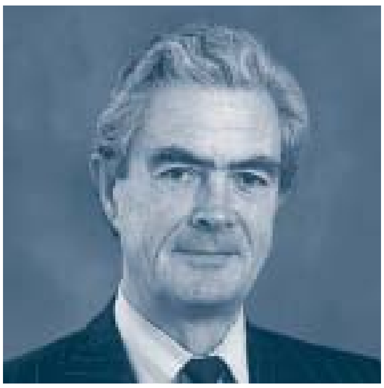
(age 60) is Chief Executive of The Business Exchange plc, and Non-Executive Chairman of Downing Classic VCT plc, Downing Classic VCT 2 plc and i-Net VCT. He is a member of the Council of the Institute of Chartered Accountants in England and Wales. He was previously National Managing Partner and Chairman of Baker Tilly. He is also a Director of Herald Investment Trust plc.

Godfrey Jillings

(age 62) 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.

Gillian Nott

(age 58) 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.



Nicholas Timpson

(age 62) 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.

Report of the Directors

Results and Dividends

The Directors submit the fifth Report and Accounts of the Company for the year ended 31 March 2003.

	£'000
Profit on ordinary activities after taxation	**312**
Interim revenue dividend of 1.0p per share paid on 13 December 2002	**(408)**
Second interim revenue dividend for the year of 1.1p per ordinary share paid on 28 March 2002	**(450)**
Interim capital dividend of 4.9p per share paid on 28 March 2003	**(2004)**
Transferred from profit and loss account	**(2,550)**

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. 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 and has received full approval as a Venture Capital Trust from the Inland Revenue for the year to 31 March 2003. 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 200,536 ordinary shares and raised net proceeds of £188,000. The Company bought back 290,000 ordinary shares (being 0.7 per cent of closing issued share capital) during the year, at a cost of £254,000.

Directors

Mr G F Jillings retires at the fifth Annual General Meeting of the Company and, being eligible, offers himself 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 2003 Ordinary 10p Shares	31 March 2002 Ordinary 10p Shares
Clive A Parritt	Beneficial and family	**26,617**	26,617
Godfrey F Jillings	Beneficial and family	**123,985**	120,871
Gillian Nott	Beneficial and family	**10,000**	10,000
Nicholas G L Timpson	Beneficial and family	**250,000**	250,000

Mr Jillings' holding has increased to 132,284 between 31 March 2003 and 23 May 2003.

There have been no other changes in the holdings of the Directors between 31 March and 23 May 2003.

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 Equity Partners 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.

Report of the Directors

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 27 June 2003 can be found in the Notice of Meeting on page 32.

Management

Baronsmead Fund Management 2 Limited ('the Manager') manages the investments in unquoted UK companies for the Company. ISIS Equity Partners 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 per cent 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.

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 Changes

On 9 October 2002 ISIS Capital plc changed its name to ISIS Equity Partners plc.

On 27 September 2002, Friends Ivory & Sime plc changed its name to ISIS Asset Management plc.

Report of the Directors

ISIS Equity Partners plc – Arrangement Fees

During the year to 31 March 2003, ISIS Equity Partners plc received net income of £79,000 (2002: £84,000) from investee companies in connection with arrangement fees, net of abort costs.

VCT Status Adviser

The Company appointed PricewaterhouseCoopers LLP (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 23 May 2003 the Company was not aware of any beneficial interests exceeding 3 per cent of the issued Ordinary Share capital.

Directors' Authority to Disapply Pre-emption Rights

The authority proposed under Resolution 5 is 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 5 renews the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances (see Dividend Reinvestment on page 33). 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 4,088,170 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 23 May 2003) 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, detailed on page 14, 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 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 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 6 seeks renewal of such authority until the Annual General Meeting in 2004 (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.

By Order of the Board,

Gary Fraser
for ISIS Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
23 May 2003

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

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

Directors' Fees

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

The Board concluded following the review of the level of Directors' fees for the forthcoming year that the amounts should remain unchanged.

The Remuneration Committee is C Parritt, G Jillings, G Nott and N Timpson. As the Company has no executive Directors, the Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31 March 2004 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £50,000 per annum (as varied by the UK Retail Prices Index from year to year) and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

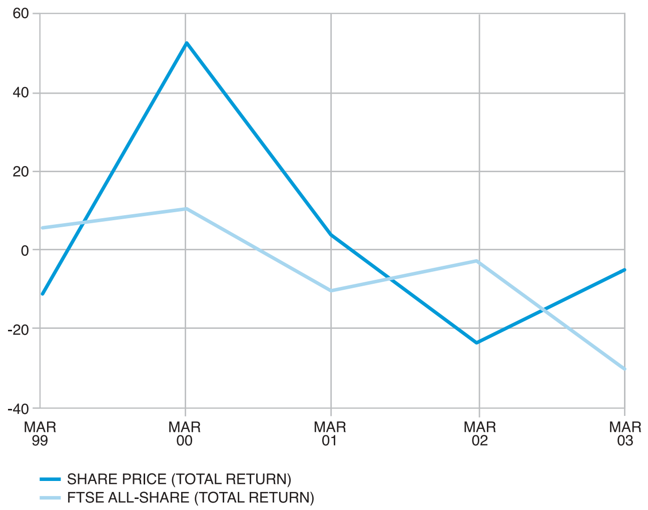
Director	Date of original appointment	Due date for Re-election
C Parritt	18/02/1998	AGM 2005
G Jillings	18/02/1998	AGM 2003
G Nott	18/02/1998	AGM 2004
N Timpson	18/02/1998	AGM 2005

The terms of Directors' appointments now provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five financial years ending 31 March 2003, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a widely understood broad equity market index against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price and The FTSE All–Share Index Performance Graph



Directors' emoluments for the year (audited)

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

	Fees 2003 £	Fees 2002 £
C Parritt	**15,000**	15,000
G Jillings	**10,000**	10,000
G Nott	**10,000**	10,000
N Timpson	**10,000**	10,000
Total	**45,000**	45,000

On behalf of the Board,

C A Parritt
Chairman
23 May 2003

Profit and Loss Account

for the year ended 31 March 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 As restated Capital £'000	2002 As restated Total £'000
(Losses)/gains on investments	8	**–**	**(267)**	**(267)**	–	3	3
Income	2	**1,809**	**–**	**1,809**	2,135	–	2,135
Investment management fee	3	**(193)**	**(580)**	**(773)**	(210)	(630)	(840)
Other expenses	4	**(295)**	**–**	**(295)**	(335)	–	(335)
Profit/(loss) on ordinary activities before taxation		**1,321**	**(847)**	**474**	1,590	(627)	963
Taxation on ordinary activities	5	**(349)**	**187**	**(162)**	(434)	200	(234)
Profit/(loss) on ordinary activities after taxation		**972**	**(660)**	**312**	1,156	(427)	729
Dividends paid	6	**(858)**	**(2,004)**	**(2,862)**	(1,142)	–	(1,142)
Retained gains/(losses) transferred to/(from) reserves	12	**114**	**(2,664)**	**(2,550)**	14	(427)	(413)
Earnings/(loss) per Ordinary 10p Share	7	**2.37p**	**(1.61)p**	**0.76p**	2.84p	(1.05)p	1.79p

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2003

	Notes	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000	2002 Revenue £'000	2002 As restated Capital £'000	2002 As restated Total £'000
Profit/(loss) on ordinary activities after taxation		**972**	**(660)**	**312**	1,156	(427)	729
Unrealised loss on revaluation of investments	12	**–**	**(1,926)**	**(1,926)**	–	(4,413)	(4,413)
Total recognised gain/(loss) during the period		**972**	**(2,586)**	**(1,614)**	1,156	(4,840)	(3,684)
Total recognised gain/(loss) per ordinary share	7	**2.37p**	**(6.31)p**	**(3.94)p**	2.84p	(11.91)p	(9.07)p

Note of Historical Cost Profits and Losses

for the year ended 31 March 2003

	2003 £'000	2002 As restated £'000
Profit on ordinary activities before taxation	**474**	963
Realisation of revaluation gains/(losses) of previous years	**303**	(417)
Historical cost profit on ordinary activities before taxation	**777**	546
Historical cost loss for the period retained after taxation and dividends	**(2,247)**	(830)

All items in the above statement derive from continuing operations.
No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 31 March 2003

	Notes	2003 £'000	2002 As restated £'000
Fixed assets			
Investments	8	**26,645**	39,667
Current assets			
Debtors	9	**533**	1,082
Cash at bank and on deposit		**9,889**	2,752
		10,422	3,834
Creditors (amounts falling due within one year)	10	**(416)**	(2,307)
Net current assets		**10,006**	1,527
Total assets less current liabilities		**36,651**	41,194
Capital and reserves			
Called-up share capital	11	**4,089**	4,097
Share premium account	12	**57**	39,964
Other reserves:			
Revaluation reserve	12	**(3,472)**	(1,243)
Capital redemption reserve	12	**16**	–
Profit and loss account*	12	**35,961**	(1,624)
Equity shareholders' funds	13, 14	**36,651**	41,194
Net asset value per Ordinary Share – Basic	13	**89.65p**	100.54p

The financial statements on pages 20 to 30 were approved by the Board of Directors on 23 May 2003 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 2003

	Notes	2003 £'000	2002 £'000
Operating activities			
Investment income received		**2,251**	1,972
Deposit interest received		**50**	40
Underwriting commission received		**2**	–
Investment management fees		**(791)**	(860)
Other cash payments		**(311)**	(336)
Net cash inflow from operating activities	16	**1,201**	816
Taxation			
Net taxation paid		**(217)**	(203)
Capital expenditure and financial investment			
Purchase of investments		**(10,914)**	(16,240)
Disposal of investments		**20,661**	18,346
Net cash inflow from capital expenditure and financial investment		**9,747**	2,106
Equity dividends paid		**(3,477)**	(1,409)
Net cash inflow before financing		**7,254**	1,310
Financing			
Issue of Ordinary Shares		**130**	1,220
Expenses of the issue		**(13)**	(30)
Buy-back of Ordinary Shares		**(234)**	(187)
Net cash (outflow)/inflow from financing		**(117)**	1,003
Increase in cash		**7,137**	2,313
Reconciliation of net cash flow to movement in net cash			
Increase in cash in the year		**7,137**	2,313
Net cash at 1 April 2002/1 April 2001		**2,752**	439
Net cash at 31 March 2003/31 March 2002	15	**9,889**	2,752

The accompanying notes are an integral part of these statements

Notes to the Accounts

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 on the assumption that the Company maintains VCT status.

The Company is no longer an investment company as defined by Section 266 of the Companies Act 1985, as investment company status was revoked on 10 March 2003 in order to permit the distribution of capital profits.

The financial statements therefore include a statutory Profit and Loss Account and a Statement of Total Recognised Gains and Losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 ''Reporting Financial Performance''. These statements differ from the Statement of Total Return usually presented by venture capital trust companies in the following respects:

- Gains and losses on disposal of investments and permanent diminutions in value are included in the profit and loss account; and
- Unrealised gains and losses on disposal are taken direct to the revaluation reserve and included in the Statement of Total Recognised Gains and Losses.

(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 in companies at an early stage of their development are also valued at cost in the absence of over-riding factors.

3. Investments which have been held for more than 12 months and which have gone beyond the stage of their development in 2 above 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.

Early stage investments are valued at cost, less any provision considered necessary, until they cease to be viewed as early stage.

Where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate, in bands of 25 per cent.

(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.

(e) Revenue/capital

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

(f) Deferred taxation

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

Notes to the Accounts

2. Income

	2003 £'000	2002 £'000
Income from investments		
UK franked	**151**	157
UK unfranked	**1,626**	1,918
	1,777	2,075
Other income		
Deposit interest	**30**	60
Underwriting commission	**2**	–
Total income	**1,809**	2,135
Total income comprises:		
Dividends	**151**	157
Interest	**1,656**	1,978
Other income	**2**	–
	1,809	2,135
Income from investments:		
Listed UK	**1,352**	1,739
Unlisted UK	**425**	336
	1,777	2,075

3. Investment management fee

	2003 £'000	2002 £'000
Investment management fee	**773**	840

For the purposes of the revenue and capital columns in the profit and loss account, the management fee has been allocated 25 per cent to revenue and 75 per cent to capital.

The management agreement may be terminated by either party giving 12 months notice of termination. The manager, ISIS Equity Partners 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 is 20 per cent of the amount by which cumulative distributions exceed this hurdle rate.

ISIS Asset Management plc receives an annual secretarial fee of £30,000 and a variable fee of 0.125% on net assets over £5,000,000 subject to annual review.

Notes to the Accounts

4. Other expenses

	2003 £'000	2002 £'000
Directors' fees	**45**	45
Remuneration for the auditors and their associates:		
– audit	**8**	8
– other services to the Company	**2**	3
Other	**240**	279
	295	335

The Chairman receives £15,000 per annum (2002: £15,000). Each of the other Directors receives £10,000 per annum (2002: £10,000).

Included in other expenses for the year to 31 March 2003 are secretarial fees of £73,000 (2002: £75,000).

5a. Taxation on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax	**164**	234
Adjustment in respect of previous periods	**(2)**	–
	162	234

5b. Factors affecting tax charge for the year

The profit and loss 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:

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	**474**	963
Corporation tax at a standard rate of 30 per cent	**142**	289
Effects of:		
Non-taxable dividend income	**(45)**	(47)
Non-taxable realisation losses/(gains)	**80**	(1)
Miscellaneous	**–**	4
Small companies rate relief	**(13)**	(11)
Prior period adjustment	**(2)**	–
Current tax year charge (note 5a)	**162**	234

6. Dividends

	2003 Total £'000	2002 Total £'000
Dividends on equity shares:		
– ordinary – interim 1.0p per share on 40,949,657 shares paid on 13 December 2002 (2001: 1.3p on 40,559,102 shares)	**409**	527
– ordinary – second interim 1.1p per share on 40,906,722 shares paid on 28 March 2003 (2002: final 1.5p on 40,971,186 shares)	**450**	615
– ordinary – interim capital dividend 4.9p per share on 40,906,722 shares paid on 28 March 2003	**2,004**	–
– over provision in prior year	**(1)**	–
	2,862	1,142

Notes to the Accounts

7. Earnings per Ordinary Share

	2003 p	2002 p
Basic	**0.76**	1.79
Total recognised loss	**(3.94)**	(9.07)

Basic earnings per ordinary share is based on the net profit on ordinary activities after taxation of £312,000 (2002: £729,000) and on 40,961,609 (2002: 40,622,274) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total recognised gains and losses per share is based on the total losses recognised for the period of £1,614,000 (2002: loss £3,684,000) and on 40,961,609 (2002: 40,622,274) shares, being the weighted average number of ordinary shares in issue during the period.

8. Investments

	2003 £'000	2002 £'000
Listed investments	**343**	673
Quoted on the Alternative Investment Market	**6,625**	5,301
Quoted on the OFEX	**310**	266
Unquoted investments	**12,212**	11,950
Listed fixed interest investments	**7,155**	21,477
Total investments	**26,645**	39,667

	Listed £'000	Traded on AiM £'000	Traded on OFEX £'000	Unquoted £'000	Listed fixed interest £'000	Total £'000
Opening cost	705	6,028	500	12,442	21,878	41,553
Opening unrealised gains/(losses) on investments	(32)	(727)	(234)	(492)	(401)	(1,886)
Opening market value	673	5,301	266	11,950	21,477	39,667
Movements in the year:						
Purchases at cost	–	2,419	–	3,316	3,984	9,719
Sales – proceeds	–	–	–	(2,220)	(18,441)	(20,661)
– realised (losses)/gains on sales	–	–	–	(375)	108	(267)
Transfer unrealised gains/(losses) realised during the period	–	–	–	484	(181)	303
Unrealised changes in value of investments	(330)	(1,095)	44	(943)	208	(2,116)
Closing valuation	**343**	**6,625**	**310**	**12,212**	**7,155**	**26,645**
Closing cost	705	8,447	500	13,163	7,529	30,344
Closing unrealised gains/(losses) on investments	(362)	(1,822)	(190)	(951)	(374)	(3,699)
Closing market value	**343**	**6,625**	**310**	**12,212**	**7,155**	**26,645**

	2003 £'000	2002 £'000
Equity shares	**10,548**	12,296
Preference shares	**1,443**	–
Fixed income securities	**14,654**	27,371
	26,645	39,667

Notes to the Accounts

9. Debtors

	2003 £'000	2002 £'000
Income tax recoverable	**–**	12
Prepayments and accrued income	**350**	824
Other debtors	**183**	246
	533	1,082

10. Creditors (amounts falling due within one year)

	2003 £'000	2002 £'000
Amounts due to brokers	**20**	1,195
Dividends	**–**	615
Taxation	**164**	231
Management and secretarial fees due to the managers	**202**	221
Other creditors	**30**	45
	416	2,307

11. Called-up share capital

	2003 £'000
Authorised:	
50,500,000 Ordinary Shares of 10p each	**5,050**
Allotted, called-up and fully-paid:	
40,971,186 Ordinary Shares of 10p each at 31 March 2002	**4,097**
67,012 Ordinary Shares of 10p each issued on 21 June 2002	**7**
78,377 Ordinary Shares of 10p each issued on 6 July 2002	**8**
55,147 Ordinary Shares of 10p each issued on 13 December 2002	**6**
290,000 Ordinary Shares of 10p each bought back during the year	**(29)**
40,881,772 Ordinary Shares of 10p each at 31 March 2003	**4,089**

Notes to the Accounts

12. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 31 March 2002 (restated)†	39,964	–	(1,243)	(1,624)
Transfer to special distributable reserve*	(39,964)	–	–	39,964
67,012 Ordinary Shares of 10p each during June 2002	63	–	–	–
78,377 Ordinary Shares of 10p each during July 2002	71	–	–	–
55,147 Ordinary Shares of 10p each during December 2002	46	–	–	–
Arising from shares bought back during the year	(110)	16	–	(131)
Expenses of issue	(13)	–	–	(1)
Transfer of prior year's revaluation to profit and loss account	–	–	(303)	303
Unrealised changes in value of investments	–	–	(1,813)	–
Deferred consideration on sale of investments	–	–	(113)	–
Retained losses for the year	–	–	–	(2,550)
	57	**16**	**(3,472)**	**35,961**

*On 6 November 2002 the Company received court approval to transfer its share premium account to a special distributable reserve. Shareholder approval allows that reserve to make any distribution, including the purchase of the Company's own shares and, accordingly, the reserve was amalgamated with the Profit and Loss Account of the Company. The profit on the sale of investments can, therefore, be paid out as capital distributions. A capital distribution was made during the year from the profit on the sale of Tricom. The Board has confirmed that this reserve will be used judiciously when paying capital dividends.

†The profit and loss account opening balance of £(1,624,000) consists of the capital reserve realised £(1,667,000) and revenue reserve £43,000 from the prior year.

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	
	2003 pence	2002 pence	**2003 £'000**	2002 £'000
Ordinary Shares (basic)	**89.65**	100.54	**36,651**	41,194

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	41,194
Capital subscribed	201
Expenses of issue and buy-back	(14)
Share capital bought back	(254)
Unrealised changes on revaluation of investments	(1,926)
Losses for the period	(2,550)
	36,651

Basic net asset value per Ordinary Share is based on £36,651,000 (2002: £41,194,000) net assets, and on 40,881,722 (2002: 40,971,186) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Notes to the Accounts

14. Reconciliation of movements in shareholders' funds

	2003 **£'000**
Opening shareholders' funds	**41,194**
Decrease in share capital	**(67)**
Unrealised changes on revaluation of investments	**(1,926)**
Losses for the period	**(2,550)**
Closing shareholders' funds	**36,651**

15. Analysis of changes in cash

	At 1 April 2002 £'000	Cash Inflow £'000	**At** **31 March** **2003** **£'000**
Cash at bank and in hand	2,752	7,137	**9,889**

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

	2003 **£'000**	2002 As restated £'000
Profit on ordinary activities before taxation	**474**	963
Loss/(profit) on realisation of investments	**267**	(3)
Decrease/(increase) in prepayments and accrued income	**494**	(123)
Decrease in other creditors	**(34)**	(21)
Net cash inflow from operating activities	**1,201**	816

17. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees and financial commitments of the Company as at 31 March 2003.

Notes to the Accounts

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 9.

19. Interest rate risk

Fixed rate

	2003 Total fixed portfolio £'000	2003 Weighted average interest rate %	2003 Weighted average time for which rate is fixed days	2002 Total fixed portfolio £'000	2002 Weighted average interest rate %	2002 Weighted average time for which rate is fixed days
Fixed interest securities	**7,155**	**6.09**	**409**	21,477	7.11	903

Floating rate

When the Company retains cash balances the majority of cash is ordinarily held on interest bearing deposit accounts. The Company has, however, placed cash on non-interest bearing deposit account at 31 March 2003 to ensure compliance with relevant VCT legislation. The Benchmark rate which determines the interest payments received on interest bearing cash balances held is the bank base rate which was 3.75 per cent as at 31 March 2003.

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 9 to 13.

21. Financial instruments

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

Fixed asset investments held (see note 8) are valued at middle market prices, cost or in accordance with the British Venture Capital Association guidelines (see note 1). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS13.

Directors' Responsibility Statement

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 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

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 2003 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors
London
23 May 2003

Notice of Annual General Meeting

Notice is hereby given that the Fifth Annual General Meeting of Baronsmead VCT 2 plc will be held at the offices of ISIS Asset Management plc, 100 Wood Street, London EC2V 7AN, on 27 June 2003 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 year to 31 March 2003 be received.
2. To approve the Directors' Remuneration Report for the year to 31 March 2003.
3. That Mr G F Jillings, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
4. That PKF, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

Special Business

Special Resolutions

5. That:
   (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 £408,817;

   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.
6. 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 6,128,170;
   (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 2004 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.

By Order of the Board

Gary Fraser
for ISIS Asset Management plc, *Secretary*
80 George Street
Edinburgh EH2 3BU

23 May 2003

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.

No Director has a contract of service with the Company.

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in December. Final dividends are ordinarily 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

27 June 2003	Annual General Meeting
August 2003	VCT factsheet sent to shareholders
November 2003	Posting of interim report
December 2003	Interim dividend paid

VCT Workshops

A Workshop for shareholders and their advisers will be held at the offices of the Investment Managers, 100 Wood Street, London EC2V 7AN, at 1.30 pm on 27 June 2003 following the Annual General Meeting.

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

Shareholder Information

Ordinary Shares

There are 2,476 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	19	0.8	3,502,052	8.5
50,001–100,000	91	3.7	6,776,808	16.6
25,001–50,000	295	11.9	11,194,563	27.4
10,001–25,000	677	27.3	11,774,162	28.8
5,001–10,000	605	24.4	4,822,872	11.8
1–5,000	789	31.9	2,811,265	6.9
Total	2,476	100.0	40,881,722	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@isisam.com
website:	www.isisam.com/privateinvestors.asp (then click Venture Capital Trusts)

*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 PROXY

I/We ____
(BLOCK LETTERS PLEASE)

of ____

being a member of Baronsmead VCT 2 plc, hereby appoint the Chairman of the meeting, or*

____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 27 June 2003, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Ordinary Resolutions	For	Against
1. To receive the Report and Accounts for the year to 31 March 2003.		
2. To approve the Directors' Remuneration Report for the year to 31 March 2003.		
3. To re-appoint Mr G F Jillings as a Director.		
4. To re-appoint PKF as Auditors, and to authorise the Directors to determine their remuneration.		
Special Resolutions		
5. To renew the Directors' authority to disapply statutory pre-emption rights.		
6. To renew the Directors' authority to buy-in Shares.		

Signature ____

Dated this ______________________ day of ______________________ 2003

Notes

*You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the time of the meeting or any adjournment thereof together where appropriate with the power of attorney under which it is signed or a notarially certified copy of such power.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending the Annual General Meeting and voting in person should you decide to do so.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence HF106

2

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0JQ

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

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

Secretary
ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU

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

VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office
Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

Brokers
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors
PKF
New Garden House
Hatton Garden
London EC1N 8JA

Solicitors
Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

ISIS Equity Partners plc – Investment Managers

ISIS Equity Partners plc is a wholly owned subsidiary of ISIS Asset Management plc, itself part of the Friends Provident Group. Its focus is on investments in unquoted companies for clients of the ISIS Asset Management Group. It is a member of the British Venture Capital Association and is regulated by the FSA.

ISIS Asset Management plc is listed on the London Stock Exchange and has offices in London and Edinburgh.

Pillans & Waddies, Edinburgh. 72452