

# Baronsmead VCT 2 plc

## 2005

Summary report  
for the year ended  
31 March 2005



# Investment Objective

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

## Investment Policy

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

## Shareholder policies

Since launch in 1998, the board of directors has sought to communicate regularly and openly with shareholders. Dialogue has been achieved principally through questionnaires, workshops and general meetings. By understanding shareholders' priorities, the board has been able to initiate a number of policies, which provide greater choice for shareholders and address their expressed objectives. The website, [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk), contains both annual and interim statutory reports as well as other generic VCT publications.

### Shareholder choice

This is achieved by offering shareholders the ability to:

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

### Buy-back policy

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

### Dividend policy

Since launch the average annual tax-free dividend paid to ordinary shareholders has been 4.8p per share (equivalent to a pre-tax return of 7.2p per share for a higher rate taxpayer). In May 2004, the board stated that it would aim to sustain annual dividends at the historic level from launch of 4.5p per ordinary share, whilst also maintaining a net asset value of at least 100p per ordinary share. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations achieved and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

### Dividend reinvestment

The directors offer to shareholders the opportunity to reinvest their dividends by subscribing for new shares in the company. The dividend reinvestment scheme enables shareholders to increase their shareholding without incurring dealing costs, issue costs or stamp duty. These shares should qualify for the VCT tax reliefs that are applicable to subscriptions for new shares and form part of each shareholder's current annual limit of £200,000 for investing in VCTs.

# Financial highlights

- NAV per ordinary share increased by 18.4% to 120.63p before deduction of dividends.
- NAV per C share increased by 1.3% to 96.23p before deduction of dividends.
- C share issue fully subscribed by 14 January 2005 – 22 million shares issued.
- The total return since launch in 1998 on ordinary shares is now 70.7%, which is equivalent to an annualised return of 7.9% since launch.
- Dividends totalling 5.0p per ordinary share paid/proposed maintains the average annual tax free dividend at over 4.5p per ordinary share since launch.
- Dividend of 1.0p per C share proposed.

## Financial summary

|  | 31 March 2005  | 31 March 2004 | % change |
|--|----------------|---------------|----------|
| <b>Ordinary shares</b>   |                |               |          |
| Net asset value  | <b>115.63p</b> | 101.88p       | 13.5     |
| Share price  | <b>100.50p</b> | 90.00p        | 11.7     |
| Discount   | <b>(13.1%)</b> | (11.7%)       |          |
| Net asset value total return for the year ended 31 March 2005 (note 1) | <b>18.9%</b>   | 24.3%         |          |
| <b>Total assets</b>  | <b>£47.9m</b>  | £41.6m        |          |

Note 1: Net asset value total return assuming gross dividends re-invested.

|                          |               |   |  |
|--------------------------|---------------|---|--|
| <b>C shares (note 2)</b> |               |   |  |
| Net asset value          | <b>95.23p</b> | – |  |
| Share price              | <b>95.00p</b> | – |  |
| Discount                 | <b>(0.2%)</b> | – |  |
| <b>Total assets</b>      | <b>£21.0m</b> | – |  |

Note 2: C shares launched on 3 September 2004 and were fully subscribed on 14 January 2005.

|                                      | Year to 31 March 2005 | Year to 31 March 2004 |
|--------------------------------------|-----------------------|-----------------------|
| <b>Dividends</b>                     |                       |                       |
| <b>Ordinary shares</b>               |                       |                       |
| Revenue dividends per ordinary share | <b>1.9p</b>           | 1.2p                  |
| Capital dividends per ordinary share | <b>3.1p</b>           | 7.3p                  |
| <b>C shares</b>                      |                       |                       |
| Revenue dividend per C share         | <b>1.0p</b>           | –                     |

### Baronsmead VCT 2 NAV and NAV total return and FTSE All-Share total return – ordinary shares



## Seven year summary

| Year ended<br>31 March | Net asset<br>value per<br>ordinary share<br>p | Dividends<br>per ordinary<br>share<br>net<br>p | Cumulative<br>dividends<br>per ordinary<br>share<br>net<br>p | Net<br>asset value<br>total return*<br>p | FTSE<br>All-Share<br>total<br>return<br>p |
|------------------------|---|--|--|--|---|
| 1999                   | 94.31   | 3.50   | 3.50   | 104.44                                   | 105.06                                    |
| 2000                   | 119.59  | 3.20   | 6.70   | 134.62                                   | 115.45                                    |
| 2001                   | 112.30  | 3.90   | 10.60  | 130.66                                   | 103.02                                    |
| 2002                   | 100.54  | 2.80   | 13.40  | 120.15                                   | 99.76                                     |
| 2003                   | 89.65   | 7.00   | 20.40  | 115.49                                   | 70.02                                     |
| 2004                   | 101.88  | 8.50   | 28.90  | 143.56                                   | 91.72                                     |
| <b>2005</b>            | <b>115.63</b>                                 | <b>5.00</b>                                    | <b>33.90</b>   | <b>170.69</b>                            | <b>105.99</b>                             |

\*Source: F&C Asset Management plc. Net asset value (NAV) plus dividends reinvested at the month end NAV.

## Cash returned to ordinary shareholders

The Board is also aware that shareholders are concerned that the original capital subscribed into Baronsmead VCT 2 has been maintained. The table below shows the cash returned to ordinary shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

| Year subscribed | Subscription<br>price<br>p | Income tax<br>reclaim<br>p | Net<br>cash<br>invested<br>p | Cumulative<br>dividends<br>paid<br>p | Net annual<br>yield*<br>% | Gross<br>yield†<br>% |
|-----------------|----------------------------|----------------------------|------------------------------|--------------------------------------|---------------------------|----------------------|
| 1998            | 100                        | 20.0                       | 80.0                         | 33.9                                 | 6.1                       | 9.0                  |
| 1999            | 102                        | 20.4                       | 81.6                         | 30.4                                 | 6.2                       | 9.2                  |
| 2000 (February) | 137                        | 27.4                       | 109.6                        | 27.2                                 | 4.9                       | 7.2                  |
| 2000 (March)    | 130                        | 26.0                       | 104.0                        | 27.2                                 | 5.2                       | 7.7                  |

Note 1 – The total returns could be higher for those shareholders who were able to defer a capital gain on subscription and the net sum invested may be less.

Note 2 – The ordinary share price of Baronsmead VCT 2 has fluctuated between 90p and 101p over the year under review.

\*Net annual yield represents the cumulative dividends paid expressed as a percentage of the net cash invested.

†The gross equivalent yield had the dividends been subject to higher rate taxation.

## Secondary market in the shares of Baronsmead VCT 2

Shares can be bought and sold using a stockbroker, just like shares in any other listed company. Qualifying purchasers are individuals over the age of 18 and are UK resident for tax purposes. They can receive VCT dividends (including capital distributions of realised gains on investments) that are not subject to income tax and capital gains tax is not payable on disposal of the VCT shares.

As shares in Baronsmead VCT 2 have been historically priced at 10% below their net asset value, the 5.0p dividend being paid for the year to 31 March 2005 equates to an approximate annualised yield of 5.0% based on the ordinary share price of 100.5p at 31 March 2005. The gross equivalent yield for a higher rate taxpayer would be 7.4%.

There is no minimum time for which VCT shares bought in the secondary market need to be held and they can be sold in the normal way.

# Chairman's statement

**Since launch seven years ago, your company has achieved good investment performance and met the twin objectives of creating capital growth and paying attractive tax free dividends. The sale of Fat Face in April 2005 is a fine example of how a portfolio company can generate good value for investors and so enhance returns for shareholders in Baronsmead VCT 2.**

**Our offer of 22 million new C shares in winter 2004/2005 was fully subscribed by 14 January 2005. We are delighted to welcome the 1,473 new shareholders. Baronsmead VCT 2 is now the largest VCT in the marketplace with a net asset value of over £65 million.**



**Clive Parritt**  
Chairman

Since the year end (on 29 April 2005) Fat Face has been sold, enabling Baronsmead VCT 2 to realise its total investment for £5.2 million. This has enabled the board to declare a first interim dividend of 5p per ordinary share for the financial year 2005/06, payable on 6 June 2005.

The changes in the net asset value per ordinary share as a result of the dividends paid/proposed are set out in the table below.

| Pence per Ordinary Share                       | Dividends | Changes in NAV(p) |
|--|-----------|-------------------|
| Net asset value before dividends               |           | 120.63            |
| Less – Interim dividend 2004/05 Paid           | 2.3       |                   |
| Less – Final dividend 2004/05 Proposed         | 2.7       | 5.00              |
| Net asset value at 31 March 2005               |           | 115.63            |
| Less – First interim dividend 2005/06 Declared | 5.0       | 5.00              |
| Resulting net asset value per ordinary share   |           | 110.63            |

## Results and dividends

In the year to 31 March 2005, the net asset value (NAV) per ordinary share increased by 18.4 per cent from 101.88p to 120.63p, before deduction of dividends. The increase in the FTSE All-Share index (total return) was 15.6 per cent over the comparable period to 31 March 2005.

Dividends totalling 5p a share for ordinary shareholders (2.3p interim dividend paid in December 2004 and the proposed final dividend of 2.7p payable on 28 June 2005 to shareholders on the register on 27 May 2005) reduce the NAV per ordinary share at the year-end to 115.63p per ordinary share.

I am delighted that performance over the last year has been excellent. This is a tribute to the managers. As shareholders are aware, the managers' remuneration arrangements are designed to enable them to share in the success they create for shareholders. The results for 2004/2005 trigger a performance fee of 3.39p per ordinary share (excluding VAT) which is based on the managers receiving 20 per cent of the total return in excess of a hurdle set at base rate plus 2 per cent.

The C share fund raising raised net proceeds of £20.9 million. A first dividend of 1.0p is proposed arising from the income earned on cash and fixed interest securities in the last few months of the year. Three AiM-traded investments were made by 31 March 2005 and the £20.1 million balance of the portfolio is held in gilts, a money market OEIC and cash. Over 70 per cent of this capital is to be invested in a portfolio of qualifying holdings by 31 March 2007. At the year end the net asset value per C share was 95.23p.

To provide shareholders with a clearer explanation of the results and how the activities for the year have affected their investment we have prepared a new operating statement (in non-statutory format). This can be found on page 6. I hope you find this helpful.

# Chairman's statement (continued)

## Long term performance

Since 1998, the total return for founder ordinary shareholders in Baronsmead VCT 2 is 70.7 per cent, net of all costs. This is calculated by combining the growth in NAV with reinvested dividends per ordinary share of 33.9p. This is further explained in the seven year summary table on page 2.

This performance places the achievements of your company ahead of most other 'generalist' VCTs, which have a similar strategy investing across a range of unquoted and AiM companies. The FTSE All-Share index over the comparable period since launch is up only a meagre 6 per cent and so the performance of your company remains substantially ahead of this index too. The positive differential increases further if the benefits from the available VCT tax reliefs are also taken into account.

## International accounting standards

The introduction of International Accounting Standards is expected to affect both Investment Trusts and VCTs, including the company at the next interim on 30 September 2005. These new standards are expected to impact the market and our accounts in two important ways. Firstly, all the trusts will change the way quoted investments are valued in the accounts with the valuations being reported at bid price (i.e. the price which the market quotes for buying shares) rather than the mid-market share price (i.e. the average of the bid price and the offer price which the market quotes for selling shares). This approach will reduce the company's net asset value per ordinary share by approximately 1.4p, although the real value to shareholders can be decided only when the investments are realised.

Secondly, no dividends will be recorded in the accounts until they are actually declared. In our case, if this approach had been adopted at 31 March 2005 the net asset value per ordinary share would have been 2.7p higher than presently stated, and 1.0p higher per C share, because the proposed final dividend would not be included in the accounts until it was declared in May 2005.

At the forthcoming annual general meeting a resolution is being put to shareholders to appoint KPMG Audit Plc as the auditors of the company. Recently your board conducted a review of this whole area, given the changes that are to be implemented by the company over the coming year, and concluded that it would be

appropriate to move the audit services to KPMG. We thank the resigning auditors, PKF, for their support and advice, since inception of the company.

## The portfolio

In the year under review, 15 new investments were made and three investments sold taking the net portfolio to 66 companies. The relative health of portfolio companies is measured quarterly in terms of profitability as well as other non financial benchmarks. At the year end, 53 of the 66 portfolio companies were reporting higher or steady profits.

This year, the principal contributor to the increase in our net asset value came from the unquoted portfolio. Americana and Staffline each showed increases in value of more than £1.4 million, after taking account of the repayment of loan stock investments. Both are testament to the successful combination of talented management teams and active involvement by the managers. AssA too, like Staffline, experienced a good recovery following changes at board level and increased in value by more than £1 million. The sale of Brownsword, the flotation of Vectura and Ardana, plus some profitable realisations of AiM stocks all added to good progress in realising value for shareholders. As reported previously, Job Opportunities went into administration and provisions were made against Spaform and Hawksmere, illustrating that not all ambitions have been fulfilled.

At 31 March 2004 the valuation of Fat Face was £1.9 million. Increasing this to its ultimate sale value provided an uplift of £3.3 million. £450,000 of loan stock had been repaid previously, so that the final cash returned including interest and dividends received over the period of ownership, represented 11.9 times the original cost of the investment. The business grew from 28 to 98 stores over the five years of the investment and illustrates how talented entrepreneurs, the introduction of professional managers and active involvement by your manager at each stage can achieve outstanding results. As the CEO of Fat Face said "Our partnership with ISIS Equity Partners has been a fantastic success and together we have taken the Fat Face brand to new levels".

Shareholders often wish to know more about the performance of individual companies. However it is not always possible to share detailed information about progress, either good or bad, because making confidential information more public could

## Chairman's statement (continued)

potentially harm the commercial prospects of individual companies. This could then influence the value of underlying investments to the possible detriment of overall shareholder value. As a result our policy is to publish available information either recorded at Companies House or on the website of individual investees. Page 11 lists all investments within the portfolio.

### Meeting shareholder needs

Shareholders approved a C share issue in July 2004 and the extension of the life of your company from 2008 to 2011. The prospectus issued in September was well received by commentators, advisers and their clients so that we were the first VCT in the financial year 2004/05 to be fully subscribed. We were also pleased that the average cost to new shareholders was less than 4.5 per cent, which was one of the least expensive fund raisings across the VCT sector.

Existing shareholders are able to subscribe and sell their shares as set out in the shareholder policy section of this report on the inside front cover. 1,744,598 ordinary shares were issued in top up offers and another 154,809 ordinary shares under the dividend reinvestment scheme. 1,320,000 ordinary shares were bought back within the last year at a discount of approximately 10 per cent to net asset value per ordinary share.

In May 2004 the board stated that it would aim to sustain annual dividends at the historic level from launch of 4.5p per ordinary share, whilst also maintaining a net asset value of at least 100p per ordinary share. Clearly the ability to meet these twin objectives will depend significantly on the level and timing of profitable realisations. With the first interim dividend for 2005-2006 the yield objective has already been exceeded which is an excellent start. Ultimately, if an active secondary market in VCT shares is to be achieved, it will be important to show secondary investors that, in addition to tax free dividends and gains, the dividend flow is likely to be maintained.

The summary financial information (cash returned to ordinary shareholders) on page 2 of this report sets out the benefits of the VCT tax reliefs for shareholders, in terms of average annual net yield for both standard rate and higher rate tax payers. The historic average net yield for the standard rate tax payer ranges from 4.9 per cent net annual yield, for shareholders who

subscribed at 137p per share in February 2000, to 6.2 per cent for subscribers at 102p per share in 1999. These percentages illustrate that VCTs can be an important part of a retirement planning portfolio as VCTs are heritable and relatively flexible when compared to pensions. For higher rate tax payers the equivalent annual cash returned to shareholders is worth that much more.

### Outlook

The last year has seen good performance across the portfolio which has been translated into higher investment returns. The task now is to sustain this and the board's role is to monitor progress and encourage the manager to maintain and further improve that performance. Significant cash returns for ordinary shareholders have been generated and we shall plan to extend this to C shareholders in two years time when their shares convert. In the meantime, an important priority is for potential purchasers of the ordinary shares to appreciate the yield characteristics of Baronsmead VCT 2 shares, so that existing shareholders can benefit from the resultant increase in the share price.

I look forward to welcoming as many shareholders as possible at the AGM on 20 June 2005 at 11.00 a.m. at the offices of F&C Asset Management, Exchange House, Primrose Street, London EC2A 2NY. Please note this change of address which is adjacent to Liverpool Street Station in the City of London. The investment manager, David Thorp, will lead a presentation on portfolio issues/current prospects. Clive Beharrel, the former chairman of Fat Face, will present, along with Mark Advani of ISIS Equity Partners, the story behind the growth and success of Fat Face. The presentations will be followed by a light buffet lunch and shareholders' workshop with the intention of finishing by 2.30 pm.



**Clive Parritt**

Chairman

24 May 2005

# Operating report (non-statutory)

for the year ended 31 March 2005

|   | Ordinary<br>shares<br>2005<br>£'000 | C shares<br>2005<br>£'000 | Total<br>2005<br>£'000 | Ordinary<br>shares<br>2004<br>£'000 |
|---|-------------------------------------|---------------------------|------------------------|-------------------------------------|
| Profit on sale of investments in year (total)                       | 1,595                               | –                         | 1,595                  | 1,258                               |
| (Profit)/loss already included in valuation at start of year        | (131)                               | –                         | (131)                  | 662                                 |
| Profit on sale of investments in current year                       | 1,464                               | –                         | 1,464                  | 1,920                               |
| Increase in portfolio valuation in the year                         | 8,219                               | 128                       | 8,347                  | 6,306                               |
| Permanent diminution in value as a result of investments liquidated | (1,452)                             | –                         | (1,452)                | –                                   |
| Deduct losses already included in valuation at start of year        | 810                                 | –                         | 810                    | –                                   |
| Realised investment write-offs in current year                      | (642)                               | –                         | (642)                  | –                                   |
| Investment income   | 1,511                               | 383                       | 1,894                  | 1,256                               |
| Investment management fee (including performance fee)               | (2,673)                             | (172)                     | (2,845)                | (778)                               |
| Other expenses  | (272)                               | (57)                      | (329)                  | (284)                               |
| Total return before tax for shareholders                            | 7,607                               | 282                       | 7,889                  | 8,420                               |
| Taxation  | 29                                  | (29)                      | –                      | 1                                   |
| <b>Total return after tax for shareholders</b>                      | <b>7,636</b>                        | <b>253</b>                | <b>7,889</b>           | <b>8,421</b>                        |
| <b>Dividends paid and proposed</b>                                  | <b>(2,086)</b>                      | <b>(220)</b>              | <b>(2,306)</b>         | <b>(3,476)</b>                      |
| <b>Transferred to reserves</b>                                      | <b>5,550</b>                        | <b>33</b>                 | <b>5,583</b>           | <b>4,945</b>                        |
| <b>Total return per ordinary share/C share in year</b>              | <b>18.18p</b>                       | <b>1.65p</b>              |                        | <b>20.54p</b>                       |



# Manager's review

**The portfolio is now well diversified and achieved good gains during the last year. The new C share capital will enable the portfolio to be built towards 80 companies.**



**David Thorp**

Lead investment manager



**Robert Coulter**

Company secretary

## New investment

The total portfolio grew to 66 companies during the year to 31 March 2005 primarily due to a good level of AiM investment. The C share capital, raised through winter 2004/05, started to be

invested, taking account of prescribed allocation rules (based on levels of undesignated cash) set by the board to ensure fairness as between the ordinary and C share pools.

| Company                           | Location          | Sector            | Activity                     | Investment cost (£'000) |                 |
|-----------------------------------|-------------------|-------------------|------------------------------|-------------------------|-----------------|
|                                   |                   |                   |                              | C shares                | Ordinary shares |
| <b>Unquoted investments</b>       |                   |                   |                              |                         |                 |
| Country Artists                   | Stratford on Avon | Consumer          | Giftware products            |                         | 517             |
| Domantis                          | Cambridge         | Healthcare        | Drug discovery               |                         | 237             |
| Occam                             | Bath              | Business services | Integrated data services     |                         | 420             |
| Spaform*                          | Portsmouth        | Consumer          | Portable spa baths           |                         | 156             |
| SLR                               | Aylesbury         | Business services | Environmental consultancy    |                         | 494             |
| Ardana*                           | Cambridge         | Healthcare        | Drug discovery               |                         | 131             |
| Vectura*                          | Chippenham        | Healthcare        | Drug delivery                |                         | 113             |
| Staffline*                        | Nottingham        | Business services | Temporary recruitment        |                         | 192             |
| Language Line*                    | London            | Business services | Interpretation services      |                         | 27              |
| <b>AiM-traded investments</b>     |                   |                   |                              |                         |                 |
| Accuma                            | Manchester        | Business Services | Insolvency services          | 63                      | 12              |
| Adventis                          | London            | Media             | Advertising agency           |                         | 281             |
| Begbies Traynor                   | Manchester        | Business services | Insolvency specialists       |                         | 525             |
| Business Direct                   | Rugby             | Business services | Secure remote lockers        |                         | 348             |
| Interactive Prospect Targeting    | London            | Media             | On line marketing            | 203                     | 50              |
| Jelf                              | Yate              | Business services | Corporate financial services |                         | 393             |
| MKM                               | Chester           | Business services | Sales promotion              |                         | 284             |
| Prologic                          | Berkhamsted       | IT                | Fashion software             |                         | 310             |
| Sanderson                         | Coventry          | IT                | Software systems             | 285                     | 102             |
| Scott Tod                         | Powys             | Business services | ATM operators                |                         | 421             |
| WIN                               | High Wycombe      | IT                | Text messaging services      |                         | 263             |
|                                   |                   |                   |                              | £551                    | £5,276          |
| <b>Total investment in period</b> |                   |                   |                              | <b>£5,827</b>           |                 |

(\*further round of investment)

## Manager's review (continued)

### Portfolio performance and realisations

The increase in NAV per ordinary share of 18.4 per cent in the last year has resulted from a range of differing growth stories across the unquoted portfolio, supported by the active ISIS Equity Partners management style. Some companies exhibit straight line growth from the outset while others need to refocus their businesses to resume their progress. In the end, value is only crystallised once the investment has been realised whether by trade sale, flotation or selling shares (usually gradually) in the AiM portfolio. A number of examples illustrate these increases in value, not least the investment in Fat Face explained in the chairman's statement.

Brownsword is the UK's leading provider of motor claims investigation services to insurance companies. Over the two years that the investment was held, Brownsword received industry wide recognition for being at the forefront of providing an outsource solution for the Digilog Voice Risk Analysis process, software that helped validate insurance claims. The sale of the company to Capita in November 2004 resulted in the value increasing from £1.1 million to £1.8 million.

Staffline's original business was to provide temporary recruitment services to manufacturing companies through a network of branch offices in the Midlands and North of England. Two years after the first investment in 2000, ISIS Equity Partners recruited the current management team who refocused the strategy towards 'on site' contracts, where the customer effectively outsources the production workforce for Staffline to manage. The resulting

resumption of sales and profits growth enabled Staffline to attract new investors on its AiM flotation in December 2004. The value of the investment at 31 March 2005 was £1.05 million compared to £0.37 million twelve months previously. In addition, £0.73 million of loan stock was repaid on flotation. The current 15 per cent discount on the ordinary shares reduces the value by £0.23 million to £1.05 million as there is a restriction on selling most of the shares through the market until December 2005.

Three technology investments attracted new investors during the year. Vectura, with its pulmonary drug discovery products, raised £20 million on joining AiM in July 2004 and 25.9 per cent of the holding was sold in February 2005 after the restricted sale period had ended. Ardana floated in March 2005, again raising £20 million, to fund its reproductive medicines portfolio. NeuTec Pharma has specialised in remedies for MRSA 'hospital bugs' and so far 75 per cent of the investment has been sold, at an overall multiple of 2.5 times cost, by a staged series of realisations on AiM.

The £628,000 loan stock in Americana and £733,000 in Staffline were repaid in December 2004, increasing the cash resources available for further investment within the ordinary share portfolio. The sale of Bodycare for 0.46 times cost (including interest received) illustrates that loan stocks can also play an important part in increasing sale proceeds.

The AiM market remains an important source of qualifying investments providing greater diversity and a more ready source of

| Principal equity realisations in year to 31 March 2005 |                  | First investment date | Cost (£'000) | Proceeds (£'000) | Multiple return |
|--|------------------|-----------------------|--------------|------------------|-----------------|
| Staffline Recruitment                                  | Market sale      | July 2000             | 6            | 30               | 5.0             |
| SDL  | Market sale      | October 1998          | 181          | 507              | 2.8             |
| Inter Link Foods                                       | Market sale      | August 1998           | 259          | 670              | 2.6             |
| neuTec Pharma  | Market sale      | February 2002         | 150          | 376              | 2.5             |
| Huveaux  | Market sale      | March 2003            | 45           | 104              | 2.3             |
| MEM  | Market sale      | August 2002           | 68           | 139              | 2.0             |
| Brownsword   | Trade sale       | December 2002         | 1,081        | 1,837            | 1.8*            |
| Business Direct  | Market sale      | August 2004           | 43           | 76               | 1.8             |
| Murgitroyd   | Market sale      | November 2001         | 181          | 256              | 1.4             |
| Vectura  | Market sale      | April 2001            | 202          | 252              | 1.2             |
| Bodycare   | Secondary buyout | November 2001         | 1,000**      | 273              | 0.5*            |
| Job Opportunities                                      | Liquidation      | September 2000        | 952**        | –                | 0.0             |
|  |                  |                       | <b>4,168</b> | <b>4,520</b>     |                 |

\* includes interest received

\*\* includes loan stock

## Manager's review (continued)

realisable equities. In addition, Vectura and Staffline have raised new capital on AiM and it has been important for us to understand the dynamics of AiM to achieve this and then find the right timing to make market sales. Generally the managers endeavour to apply their sector knowledge and prior contact with such companies when deciding to invest and influence their subsequent progress.

### Investor relations

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

The web site for Baronsmead VCT 2 is now easier to access via [www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk) and contains a number of reports including, not only the statutory reports and fact sheets, but also the presentations at the annual general meeting and shareholder workshop. It also contains published generic information to aid financial planning for shareholders including the fourth edition of the guide 'A closer look at VCTs' and a dividend reinvestment scheme document that explains how the 40 per cent income tax relief on subscription makes this scheme more advantageous (at least until April 2006).

### Outlook

The high level of realisations since 31 March 2004 has generated significant dividends and also cash for reinvestment within the ordinary share pool. Currently this totals some £7 million and together with the £20 million from the C share fund raising, this means that the priority is to seek out suitable opportunities for investment in interesting businesses that fit our policy. The above average growth aspirations and prospects make these companies relatively scarce assets, hence the significant growth in the team at ISIS Equity Partners in recent years to seek out and then manage these investments.



**David Thorp**

Investment manager  
ISIS Equity Partners

24 May 2005

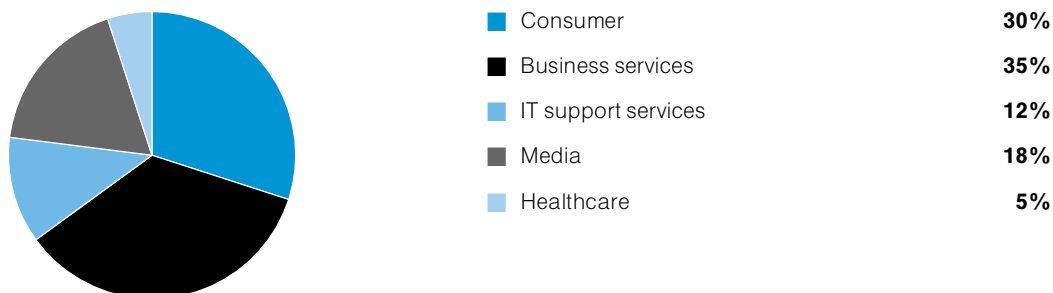
# Investment classification

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

Portfolio by sector ...

Company investments (excluding fixed interest portfolio)

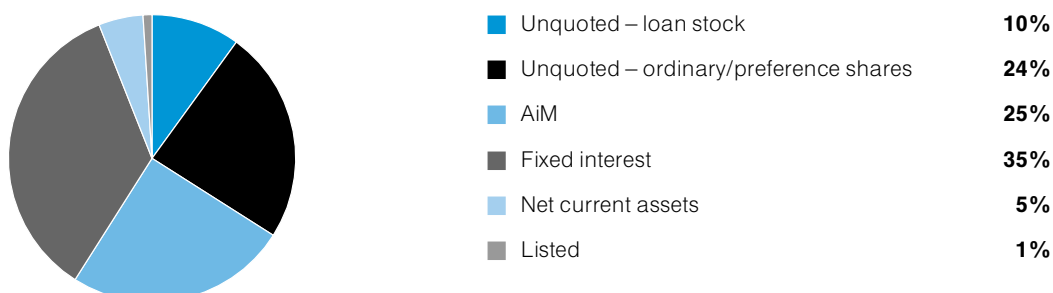
Sector analysis as at 31 March 2005



... and by Asset classification

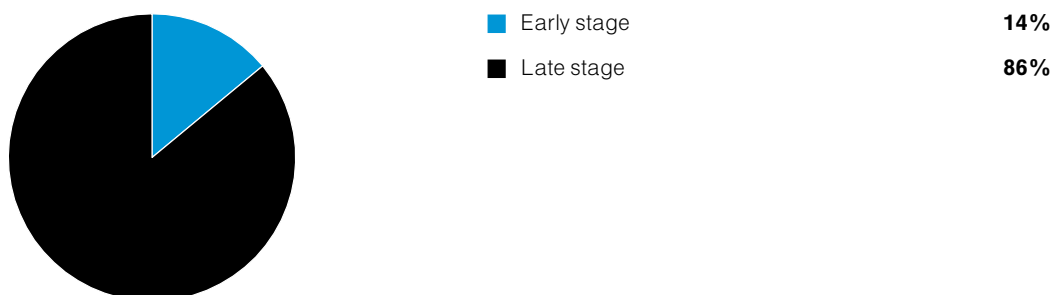
Total investments

Market analysis as at 31 March 2005



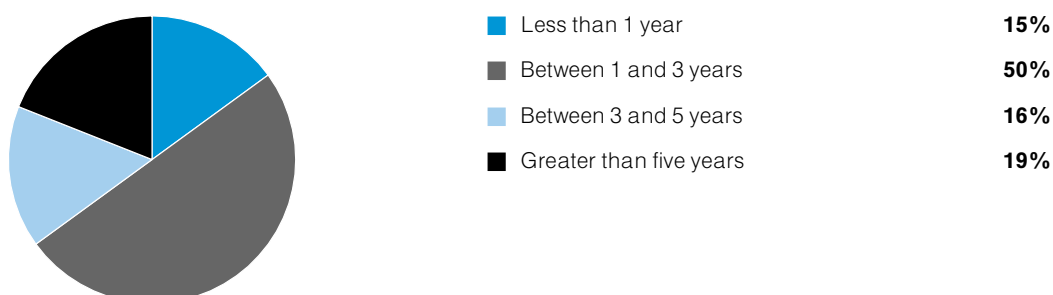
... and by Development stage

by Value as at 31 March 2005



... and by Time investments held

by Value as at 31 March 2005



# Investment portfolio

Portfolio valuation at 31 March 2005

| Company                        | Nature of business | Book cost                |                   | Valuation                |                   | % of Net assets |              | % of Equity held by Baronsmead VCT 2 plc | % of Equity held by other funds* |
|--------------------------------|--------------------|--------------------------|-------------------|--------------------------|-------------------|-----------------|--------------|--|----------------------------------|
|                                |                    | Ordinary shares<br>£'000 | C shares<br>£'000 | Ordinary shares<br>£'000 | C shares<br>£'000 | Ordinary shares | C shares     |  |                                  |
| <b>Unquoted</b>                |                    |                          |                   |                          |                   |                 |              |  |                                  |
| Fat Face                       | Consumer Markets   | 50                       |                   | 5,186                    |                   | 10.8            |              | 5.8                                      | 34.5                             |
| Americana                      | Consumer Markets   | 70                       |                   | 3,060                    |                   | 6.4             |              | 4.0                                      | 32.4                             |
| The Art Group                  | Media              | 1,576                    |                   | 2,370                    |                   | 4.9             |              | 8.6                                      | 16.4                             |
| RLA Media                      | Media              | 886                      |                   | 2,158                    |                   | 4.5             |              | 11.3                                     | 18.7                             |
| AssA                           | Business Services  | 1,371                    |                   | 2,088                    |                   | 4.3             |              | 16.1                                     | 30.8                             |
| Martin Audio                   | Business Services  | 968                      |                   | 1,909                    |                   | 4.0             |              | 15.9                                     | 30.6                             |
| kidsunlimited                  | Business Services  | 481                      |                   | 1,043                    |                   | 2.2             |              | 4.1                                      | 46.9                             |
| Searchspace                    | IT                 | 500                      |                   | 1,005                    |                   | 2.1             |              | 1.2                                      | 8.8                              |
| Kondor                         | Consumer Markets   | 1,000                    |                   | 987                      |                   | 2.1             |              | 3.8                                      | 21.1                             |
| Language Line                  | Business Services  | 812                      |                   | 812                      |                   | 1.7             |              | 7.4                                      | 60.6                             |
| Fretwell Downing               | IT                 | 503                      |                   | 619                      |                   | 1.3             |              | 4.3                                      | 20.2                             |
| SLR Holdings                   | Business Services  | 494                      |                   | 613                      |                   | 1.3             |              | 2.6                                      | 22.6                             |
| Country Artists                | Consumer Markets   | 517                      |                   | 517                      |                   | 1.1             |              | 6.1                                      | 53.9                             |
| Hawksmere                      | Business Services  | 942                      |                   | 424                      |                   | 0.9             |              | 12.8                                     | 27.1                             |
| Occam                          | Business Services  | 420                      |                   | 420                      |                   | 0.9             |              | 4.8                                      | 35.4                             |
| Oxxon Pharmaccines             | Healthcare         | 250                      |                   | 250                      |                   | 0.5             |              | 0.8                                      | 0.8                              |
| Domantis                       | Healthcare         | 237                      |                   | 237                      |                   | 0.5             |              | 0.8                                      | 2.0                              |
| SpaForm                        | Consumer Markets   | 1,000                    |                   | –                        |                   | –               |              | 15.6                                     | 30.5                             |
| Job Opportunities              | Media              | 952                      |                   | –                        |                   | –               |              | 7.8                                      | 38.9                             |
| Imerge                         | IT                 | 500                      |                   | –                        |                   | –               |              | 0.1                                      | 0.3                              |
| <b>Total unquoted</b>          |                    | <b>13,529</b>            |                   | <b>23,698</b>            |                   | <b>49.5</b>     |              |  |                                  |
| <b>Listed</b>                  |                    |                          |                   |                          |                   |                 |              |  |                                  |
| Ardana                         | Healthcare         | 481                      |                   | 481                      |                   | 1.0             |              | 0.8                                      | 2.3                              |
| <b>Total listed</b>            |                    | <b>481</b>               |                   | <b>481</b>               |                   | <b>1.0</b>      |              |  |                                  |
| <b>AiM</b>                     |                    |                          |                   |                          |                   |                 |              |  |                                  |
| Begbies Traynor                | Business Services  | 525                      |                   | 1,089                    |                   | 2.3             |              | 2.0                                      | 5.6                              |
| Staffline Recruitment Group    | Business Services  | 267                      |                   | 1,048                    |                   | 2.2             |              | 4.9                                      | 29.7                             |
| Huveaux                        | Media              | 666                      |                   | 1,036                    |                   | 2.2             |              | 2.4                                      | 3.1                              |
| Inter Link Foods               | Consumer Markets   | 264                      |                   | 870                      |                   | 1.8             |              | 1.2                                      | 1.5                              |
| Vectura                        | Healthcare         | 578                      |                   | 816                      |                   | 1.7             |              | 1.1                                      | 5.4                              |
| Landround                      | Business Services  | 467                      |                   | 814                      |                   | 1.7             |              | 3.9                                      | 3.9                              |
| Real Good Food Company         | Consumer Markets   | 620                      |                   | 691                      |                   | 1.4             |              | 3.3                                      | 7.2                              |
| Colliers CRE                   | Business Services  | 470                      |                   | 667                      |                   | 1.4             |              | 1.2                                      | 2.5                              |
| Air Music & Media              | Media              | 575                      |                   | 625                      |                   | 1.3             |              | 2.3                                      | 3.8                              |
| Medal Entertainment & Media    | Media              | 303                      |                   | 578                      |                   | 1.2             |              | 3.4                                      | 5.0                              |
| ATA Group                      | Business Services  | 355                      |                   | 556                      |                   | 1.2             |              | 4.7                                      | 4.8                              |
| Top Ten                        | Consumer Markets   | 759                      |                   | 548                      |                   | 1.1             |              | 2.5                                      | 2.5                              |
| Sanderson Group                | IT                 | 102                      | 285               | 136                      | 379               | 0.3             | 1.8          | 1.9                                      | 5.5                              |
| IDOX                           | IT                 | 600                      |                   | 507                      |                   | 1.1             |              | 2.9                                      | 4.2                              |
| Business Direct                | Business Services  | 304                      |                   | 496                      |                   | 1.0             |              | 2.0                                      | 6.7                              |
| Zoo Digital                    | IT                 | 438                      |                   | 490                      |                   | 1.0             |              | 1.5                                      | 4.0                              |
| Murgitroyd Group               | Business Services  | 319                      |                   | 482                      |                   | 1.0             |              | 3.2                                      | 3.2                              |
| Jelf Group                     | Business Services  | 393                      |                   | 464                      |                   | 1.0             |              | 3.6                                      | 10.3                             |
| Interactive Prospect Targeting | Media              | 50                       | 203               | 87                       | 351               | 0.2             | 1.7          | 1.1                                      | 3.2                              |
| Quadnetics                     | Business Services  | 296                      |                   | 373                      |                   | 0.8             |              | 1.0                                      | 2.3                              |
| WIN                            | IT                 | 263                      |                   | 368                      |                   | 0.8             |              | 1.4                                      | 3.9                              |
| Adventis Group                 | Media              | 281                      |                   | 355                      |                   | 0.7             |              | 3.0                                      | 7.8                              |
| NeuTec Pharma                  | Healthcare         | 78                       |                   | 300                      |                   | 0.6             |              | 0.2                                      | 0.2                              |
| VI Group                       | IT                 | 500                      |                   | 285                      |                   | 0.6             |              | 6.2                                      | 8.1                              |
| Prologic                       | IT                 | 310                      |                   | 279                      |                   | 0.6             |              | 4.1                                      | 10.9                             |
| Cardpoint                      | Business Services  | 114                      |                   | 268                      |                   | 0.6             |              | 0.4                                      | 0.6                              |
| Scott Tod                      | Business Services  | 421                      |                   | 261                      |                   | 0.6             |              | 2.3                                      | 6.0                              |
| Stagecoach Theatre Arts        | Consumer Markets   | 419                      |                   | 259                      |                   | 0.5             |              | 4.6                                      | 4.5                              |
| Polaron                        | IT                 | 296                      |                   | 257                      |                   | 0.5             |              | 1.4                                      | 3.4                              |
| Micap                          | Healthcare         | 375                      |                   | 198                      |                   | 0.4             |              | 2.4                                      | 3.6                              |
| Biofocus                       | Healthcare         | 680                      |                   | 194                      |                   | 0.4             |              | 1.2                                      | 1.2                              |
| Blooms of Bressingham          | Consumer Markets   | 320                      |                   | 187                      |                   | 0.4             |              | 1.1                                      | 1.1                              |
| Cobra Biomanufacturing         | Healthcare         | 210                      |                   | 179                      |                   | 0.4             |              | 1.3                                      | –                                |
| Conder Environmental           | Business Services  | 340                      |                   | 145                      |                   | 0.3             |              | 4.6                                      | 4.6                              |
| Universe Group                 | Business Services  | 195                      |                   | 144                      |                   | 0.3             |              | 1.3                                      | 2.6                              |
| Xpertise Group                 | Business Services  | 296                      |                   | 110                      |                   | 0.2             |              | 2.6                                      | 4.4                              |
| Accuma Group                   | Business Services  | 12                       | 63                | 17                       | 88                | –               | 0.4          | 0.4                                      | 1.4                              |
| MKM Group                      | Business Services  | 284                      |                   | 90                       |                   | 0.2             |              | 4.9                                      | 12.5                             |
| Sirius Financial Solutions     | IT                 | 150                      |                   | 89                       |                   | 0.2             |              | 0.6                                      | –                                |
| Capcon Holdings                | Business Services  | 137                      |                   | 58                       |                   | 0.1             |              | 1.7                                      | 3.3                              |
| Charterhouse Communications    | Media              | 355                      |                   | 31                       |                   | 0.1             |              | 1.2                                      | 1.6                              |
| AorTech International          | Healthcare         | 285                      |                   | 23                       |                   | –               |              | 0.4                                      | 0.3                              |
| NMT Group                      | Healthcare         | 351                      |                   | 14                       |                   | –               |              | 0.3                                      | 0.3                              |
| Highams Systems Services       | IT                 | 197                      |                   | 13                       |                   | –               |              | 0.7                                      | 1.5                              |
| <b>Total AiM</b>               |                    | <b>15,220</b>            | <b>551</b>        | <b>16,497</b>            | <b>818</b>        | <b>34.4</b>     | <b>3.9</b>   |  |                                  |
| <b>OFEX</b>                    |                    |                          |                   |                          |                   |                 |              |  |                                  |
| Chemistry Communications       | Business Services  | 500                      |                   | 127                      |                   | 0.3             |              | 4.2                                      | 4.2                              |
| <b>Total OFEX</b>              |                    | <b>500</b>               |                   | <b>127</b>               |                   | <b>0.3</b>      |              |  |                                  |
| <b>Fixed interest</b>          |                    |                          |                   |                          |                   |                 |              |  |                                  |
| UK Treasury 7.5% 07/12/06      |                    | –                        | 12,432            | –                        | 12,304            | 0.0             | 58.7         |  |                                  |
| UK Treasury 4.5% 07/03/07      |                    | 3,949                    | 3,501             | 3,989                    | 3,490             | 8.3             | 16.7         |  |                                  |
| UK Treasury 4.0% 07/03/09      |                    | 490                      |                   | 488                      |                   | 1.0             | 0.0          |  |                                  |
| Money Market OEIC              |                    | 1,527                    | 2,200             | 1,527                    | 2,200             | 3.2             | 10.5         |  |                                  |
| <b>Total fixed interest</b>    |                    | <b>5,966</b>             | <b>18,133</b>     | <b>6,004</b>             | <b>17,994</b>     | <b>12.5</b>     | <b>85.9</b>  |  |                                  |
| <b>Total investments</b>       |                    | <b>35,696</b>            | <b>18,684</b>     | <b>46,807</b>            | <b>18,812</b>     | <b>97.7</b>     | <b>89.8</b>  |  |                                  |
| <b>Net current assets</b>      |                    |                          |                   | <b>1,124</b>             | <b>2,139</b>      | <b>2.3</b>      | <b>10.2</b>  |  |                                  |
| <b>Net assets</b>              |                    |                          |                   | <b>47,931</b>            | <b>20,951</b>     | <b>100.0</b>    | <b>100.0</b> |  |                                  |

A provision of £2,983,000 has been made against unquoted investments as at 31 March 2005 (31 March 2004: £2,387,000; 31 March 2003: £2,913,000).  
\*Other funds managed by the same investment manager, ISIS Equity Partners plc.

## Ten largest investments (by market valuation)

### Fat Face Limited *Havant*

|                            | February 2000           | Year ended 31 May | 2004             | 2003      |
|----------------------------|-------------------------|-------------------|------------------|-----------|
| <b>First investment:</b>   | February 2000           |                   |                  |           |
| <b>Initial investment:</b> | £500,000                |                   | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £50,000                 | Sales             | <b>45.0</b>      | 30.5      |
| <b>Valuation:</b>          | £5,186,000              | Profit before tax | <b>3.6</b>       | 2.3       |
| <b>Valuation basis:</b>    | Third party offer price | Retained profit   | <b>1.8</b>       | 1.1       |
|                            |                         | Net assets        | <b>4.7</b>       | 3.0       |

Fat Face is a multi-channel retailer supplying branded clothing and accessories to the outdoor active lifestyle market. The company raised £3.5 million to fund expansion and a share reorganisation. In May 2005 the Company disposed of its investment in Fat Face for £5,186,000.

[www.fatface.com](http://www.fatface.com)



### Americana Holdings Limited *Manchester*

|                            | July 2003                 | Year ended 31 December | 2004*            | 2002      |
|----------------------------|---------------------------|------------------------|------------------|-----------|
| <b>First investment:</b>   | July 2003                 |                        |                  |           |
| <b>Initial investment:</b> | £698,000                  |                        | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £70,000                   | Sales                  | <b>32.2</b>      | 25.3      |
| <b>Valuation:</b>          | £3,060,000                | Profit before tax      | <b>6.1</b>       | 4.9       |
| <b>Valuation basis:</b>    | Discounted price earnings | Retained profit        | <b>4.1</b>       | 3.4       |
|                            |                           | Net assets             | <b>5.2</b>       | 5.4       |

Americana is a fashion clothing business aimed at the youth market wholesaling and retailing under the brand names 'Bench' and 'Hooch'. In August 2003 £6.4 million was raised to support a management buy out.

[www.bench.co.uk](http://www.bench.co.uk) [www.hooch.co.uk](http://www.hooch.co.uk)



\*for the period from 1 January 2003 to 30 June 2004

### The Art Group Limited *London*

|                            | October 2003              | Year ended 31 December | 2003             | 2002      |
|----------------------------|---------------------------|------------------------|------------------|-----------|
| <b>First investment:</b>   | October 2003              |                        |                  |           |
| <b>Initial investment:</b> | £1,576,000                |                        | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £1,576,000                | Sales                  | <b>18.3</b>      | 16.7      |
| <b>Valuation:</b>          | £2,370,000                | Profit before tax      | <b>2.0</b>       | 1.6       |
| <b>Valuation basis:</b>    | Discounted price earnings | Retained profit        | <b>1.3</b>       | 1.1       |
|                            |                           | Net assets             | <b>1.4</b>       | 2.5       |

The Art Group is a market leading publisher of art content on cards, posters and canvas prints sold to retailers in over 50 countries such as IKEA and Habitat. It raised £4.5 million to support a management buy out.

[www.artgroup.com](http://www.artgroup.com)



### RLA Media Limited *Bournemouth*

|                            | December 2002             | Year ended 31 May | 2004             | 2003*     |
|----------------------------|---------------------------|-------------------|------------------|-----------|
| <b>First investment:</b>   | December 2002             |                   |                  |           |
| <b>Initial investment:</b> | £886,000                  |                   | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £886,000                  | Sales             | <b>10.6</b>      | 4.5       |
| <b>Valuation:</b>          | £2,158,000                | Profit before tax | <b>1.7</b>       | 0.4       |
| <b>Valuation basis:</b>    | Discounted price earnings | Retained profit   | <b>0.6</b>       | 0.1       |
|                            |                           | Net assets        | <b>3.5</b>       | 2.9       |

RLA is a regional marketing services agency, predominantly servicing national and multinational brands selling through local outlets. It raised £2.4 million as replacement capital.

[www.rla.co.uk](http://www.rla.co.uk)

\*for the period 19 November 2002 to 31 May 2003 (as restated)



### AssA Training and Learning Limited *Tyne & Wear*

|                            | September 2003            | Year ended 31 July | 2004             | 2003      |
|----------------------------|---------------------------|--------------------|------------------|-----------|
| <b>First investment:</b>   | September 2003            |                    |                  |           |
| <b>Initial investment:</b> | £1,028,000                |                    | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £1,371,000                | Sales              | <b>13.6</b>      | 7.2       |
| <b>Valuation:</b>          | £2,088,000                | Loss before tax    | <b>(7.2)</b>     | (10.8)    |
| <b>Valuation basis:</b>    | Discounted price earnings | Retained loss      | <b>(7.8)</b>     | (10.8)    |
|                            |                           | Net liabilities    | <b>(6.9)</b>     | (6.4)     |

AssA Training and Learning is a training developer and provider specialising in the marketing and delivery of public sector funded vocational training to the automotive and manufacturing sectors. It raised £3 million to support a management buy out.

[www.assaltd.co.uk](http://www.assaltd.co.uk)



## Ten largest investments (by market valuation) (continued)

### Martin Audio Limited High Wycombe

|                            |                           |                        |                  |           |
|----------------------------|---------------------------|------------------------|------------------|-----------|
| <b>First investment:</b>   | August 2003               | Year ended 30 June     | <b>2004</b>      | 2003      |
| <b>Initial investment:</b> | £1,045,000                |                        | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £968,000                  |                        |                  |           |
| <b>Valuation:</b>          | £1,909,000                | Sales                  | <b>11.4</b>      | 9.5       |
| <b>Valuation basis:</b>    | Discounted price earnings | Profit before tax      | <b>1.1</b>       | 1.0       |
|                            |                           | Retained profit/(loss) | <b>(0.8)</b>     | –         |
|                            |                           | Net assets             | <b>0.9</b>       | 1.3       |

Martin Audio designs, assembles and markets high performance speaker systems for use in the concert and public entertainment markets, in the UK and overseas. It raised £3 million to support a management buy out.

[www.martin-audio.com](http://www.martin-audio.com)



### Begbies Traynor Group Manchester

|                            |                     |  |                   |             |
|----------------------------|---------------------|--|-------------------|-------------|
| <b>First investment:</b>   | September 2004      | First available accounts for the six months ended: |                   |             |
| <b>Initial investment:</b> | £525,000            |  | <b>31 October</b> |             |
| <b>Residual cost:</b>      | £525,000            |  | <b>2004</b>       |             |
| <b>Valuation:</b>          | £1,089,000          |  | <b>£ million</b>  |             |
| <b>Valuation basis:</b>    | Middle market price | Sales  |                   | <b>11.0</b> |
|                            |                     | Profit before tax                                  |                   | <b>0.2</b>  |
|                            |                     | Retained profit                                    |                   | <b>0.1</b>  |
|                            |                     | Net assets   |                   | <b>25.3</b> |

Begbies Traynor Group is the UK's leading independent insolvency, corporate and rescue and recovery specialist. The company joined AiM in September 2004 raising £5.4 million.

[www.begbiestraynor.com](http://www.begbiestraynor.com)



### Staffline Recruitment Group

|                            |                                |                        |                  |           |
|----------------------------|--------------------------------|------------------------|------------------|-----------|
| <b>First investment:</b>   | July 2000                      | Year ended 31 December | <b>2004</b>      | 2003      |
| <b>Initial investment:</b> | £814,000                       |                        | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £267,000                       |                        |                  |           |
| <b>Valuation:</b>          | £1,048,000                     | Sales                  | <b>48.9</b>      | 39.9      |
| <b>Valuation basis:</b>    | Discounted middle market price | Loss before tax        | <b>(0.1)</b>     | (0.6)     |
|                            |                                | Retained loss          | <b>(0.4)</b>     | (0.5)     |
|                            |                                | Net assets             | <b>16.4</b>      | 1.2       |

Staffline Recruitment Group is a leading provider of recruitment and outsourced human resources services to industry.

[www.staffline.co.uk](http://www.staffline.co.uk)



### Kidsunlimited Limited Wilmslow

|                            |                           |                     |                  |           |
|----------------------------|---------------------------|---------------------|------------------|-----------|
| <b>First investment:</b>   | June 2001                 | Year ended 30 April | <b>2004</b>      | 2003      |
| <b>Initial investment:</b> | £400,000                  |                     | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £481,000                  |                     |                  |           |
| <b>Valuation:</b>          | £1,043,000                | Sales               | <b>16.8</b>      | 13.8      |
| <b>Valuation basis:</b>    | Discounted price earnings | Loss before tax     | <b>(1.3)</b>     | (1.3)     |
|                            |                           | Retained loss       | <b>(1.3)</b>     | (1.3)     |
|                            |                           | Net liabilities     | <b>(3.6)</b>     | (2.3)     |

Kidsunlimited is a provider of day care facilities for children under five years old. The company operates a combination of owned nurseries and those located within the workplace. It raised £5 million to fund expansion and a share reorganisation.

[www.kidsunlimited.co.uk](http://www.kidsunlimited.co.uk)



### Huveaux Plc London

|                            |                     |                        |                  |           |
|----------------------------|---------------------|------------------------|------------------|-----------|
| <b>First investment:</b>   | March 2003          | Year ended 31 December | <b>2004</b>      | 2003      |
| <b>Initial investment:</b> | £658,000            |                        | <b>£ million</b> | £ million |
| <b>Residual cost:</b>      | £666,000            |                        |                  |           |
| <b>Valuation:</b>          | £1,036,000          | Sales                  | <b>14.4</b>      | 4.6       |
| <b>Valuation basis:</b>    | Middle market price | Profit before tax      | <b>2.1</b>       | 1.2       |
|                            |                     | Retained profit        | <b>0.7</b>       | 0.3       |
|                            |                     | Net assets             | <b>39.1</b>      | 21.6      |

Huveaux is a publishing and media group with a strategy to expand into the government and educational sectors. The Group raised £7.6 million to purchase Lonsdale Publishing and support the Group's buy and build strategy.

[www.huveauxplc.com](http://www.huveauxplc.com)

HUVEAUX PLC



# Board of directors

as at 31 March 2005



## Clive Parritt (Chairman)

(Date of Appointment 18 February 1998), (age 62) is a chartered accountant with over 25 years' experience of providing strategic, financial and commercial advice to medium sized businesses. Until February 2001 he was chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is a member of the Council of the Institute of Chartered Accountants in England and Wales and chairman of BETonSPORTS plc and BG Consulting Group Limited. He specialises in corporate finance and was chief executive of a leading independent corporate finance house until July 2003. Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses.



## Godfrey Jillings

(Date of Appointment 18 February 1998), (age 64) is a non-executive director/chairman of several fast growth unquoted companies. He held a range of senior executive appointments at NatWest including responsibility for their retail stockbroking, unit trust and PEP operations. He was a CEO of FIMBRA, the regulatory body for IFAs and a Deputy CEO of its successor, the PIA (1990–1994). He was deputy chairman of DBS plc (1996–2002), the leading IFA network prior to its take-over and is also a director of Baronsmead VCT plc.



## Gillian Nott

(Date of Appointment 18 February 1998), (age 60) has in-depth experience of private investors as chief executive of ProShare (1994–99). Previously she was responsible for the private equity portfolios at BP and until November 2004 she was a director of the FSA. She is a director of Martin Currie Portfolio Investment Trust plc, Merrill Lynch British Smaller Companies Trust plc and Witan Pacific Investment Trust PLC. She is chairman of Baronsmead VCT plc and a director of Baronsmead VCT 3 plc.



## Nicholas Timpson

(Date of Appointment 18 February 1998), (age 64) was the founder, chairman and managing director of Furnitureland Holdings plc. He is chairman of Whitemeadow Furniture Ltd and a director of The Vestey Group Ltd. He brings to the board long experience in the development of private companies. Before founding Furnitureland Holdings plc in 1973, he worked as a management consultant for McKinsey & Co.

As a fully listed Company, Baronsmead VCT 2 plc is required to comply with the Combined Code relating to its corporate governance. This Code requires the company to be headed by an effective board of directors who lead and control the company's affairs.

The directors of a VCT and investment managers are required under the listing and continuing obligations of the London Stock Exchange to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest.



# Summary financial statement

This summary financial statement has been prepared voluntarily by the directors in accordance with the relevant requirements of section 251 of the Companies Act 1985. It does not contain sufficient information to allow a full understanding of the results and state of affairs of the company. For further information, the full annual financial statements, the auditors' report on those financial statements and the directors' report should be consulted. A copy of the annual report, which may be obtained free of charge from the company secretary, will be delivered to the Registrar of Companies after the annual general meeting. Shareholders wishing to receive the full annual report in future years may opt to do so by sending signed, written notice to the company secretary. PKF (UK) LLP have reported on the company's annual accounts and the auditable part of the directors' remuneration report for the year ended 31 March 2005; this report was unqualified and contained no statement under section 237(2) and (3) of the Companies Act 1985.

## Summary directors' report

### Results and dividends

The directors submit the seventh report and accounts of the company for the year ended 31 March 2005.

| Ordinary shares   | £'000          | p*           |
|---|----------------|--------------|
| Return achieved during the year   | <b>7,636</b>   | <b>18.2</b>  |
| Interim dividend of 2.3p per share paid on 16 December 2004   | <b>(967)</b>   | <b>(2.3)</b> |
| Proposed final dividend for the year of 2.7p per share payable on 28 June 2005 to shareholders on the register on 27 May 2005   | <b>(1,119)</b> | <b>(2.7)</b> |
| Transferred to reserves   | <b>5,550</b>   | <b>13.2</b>  |
| C shares  | £'000          | p*           |
| Return achieved during the period   | <b>253</b>     | <b>1.6</b>   |
| Proposed final dividend for the period of 1.0p per share payable on 28 June 2005 to shareholders on the register on 27 May 2005 | <b>(220)</b>   | <b>(1.4)</b> |
| Transferred to reserves   | <b>33</b>      | <b>0.2</b>   |

\*Calculation based on weighted number of shares in issue during year.

### 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 the company has received full approval as a Venture Capital Trust from the Inland Revenue for the year to 31 March 2004. 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

#### Ordinary shares

During the year the company issued 1,899,407 ordinary shares and raised net proceeds of £1,995,000. The company bought back 1,320,000 ordinary shares (being 3.2 per cent of closing issued share capital) during the year, at a cost of £1,257,000.

#### C shares

During the year the company issued 22,000,000 C shares and raised net proceeds of £20,918,000.

### Directors

Biographies of the directors are shown on page 14.

Mr C Parritt and Mr N Timpson retire at the seventh annual general meeting of the company and, being eligible, offer themselves for re-election.

The board confirms that following performance evaluations, the performance of each of the directors seeking re-election continues to be effective and demonstrates commitment to the role and believes that it is therefore in the best interests of shareholders that these directors are re-elected.

The directors who held office at the end of the year, and their beneficial interests in the ordinary shares of the company were:

|                          | 31 March 2005       |              | 31 March 2004       |
|--------------------------|---------------------|--------------|---------------------|
|                          | Ordinary 10p shares | C 50p shares | Ordinary 10p shares |
| Clive A Parritt*         | <b>44,006</b>       | –            | 27,652              |
| Godfrey F Jillings*      | <b>147,852</b>      | –            | 144,651             |
| Gillian Nott*            | <b>10,221</b>       | –            | 10,000              |
| Nicholas G L Timpson*    | <b>250,000</b>      | 52,000       | 250,000             |
| <b>Total shares held</b> | <b>452,079</b>      | 52,000       | 432,303             |

\*Beneficial and family

There have been no other changes in the holdings of the directors between 31 March 2005 and 24 May 2005.

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

During the period the company took the necessary steps to ensure that, except as disclosed below, it complies with the provisions of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003, which is applicable for accounting years beginning on or after 1 November 2003 ('the revised Code').

## Summary financial statement (continued)

Since all directors are non executive, the company is not required to comply with the provisions of the revised Code in respect of the directors' remuneration, except in so far as they relate specifically to non-executive directors.

In view of its non-executive nature and the requirement of the Articles of Association that all directors retire by rotation, the board considers that it is not appropriate for the directors to be appointed for a specified term as recommended by the revised Code. However, the board has agreed that each director will retire and, if appropriate, seek re-election at the completion of each three years' service, and annually after serving on the board for more than nine years.

The board consists solely of non-executive directors of which Mr Parritt is Chairman and Mr Timpson is senior independent director. All directors are considered by the board to be independent of the company's managers. Directors received an induction from the managers on joining the board, and all directors receive other relevant training as necessary.

After making enquiries, and bearing in mind the nature of the company's business and assets, the directors consider that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### 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 20 June 2005 can be found in the notice of meeting on page 20.

## Summary directors' remuneration report

### 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 2006 and subsequent years.

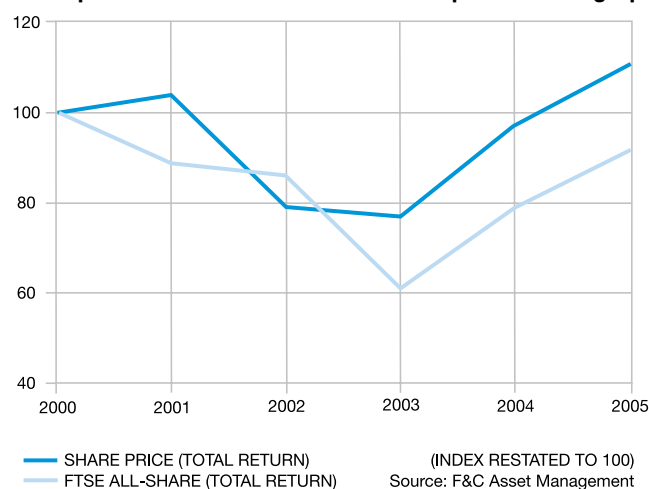
The fees for the non-executive directors are determined within the limits set out in the Company's Articles of Association. The present limit is £75,000 per annum (as varied by the UK Retail Prices Index from year to year) and the approval of shareholders in a general meeting would be required to change this limit. Non-

executive directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

### 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 2005, 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<br>2005<br>£ | Fees<br>2004<br>£ |
|--------------|-------------------|-------------------|
| C Parritt    | <b>16,500</b>     | 15,000            |
| G Jillings   | <b>11,000</b>     | 10,000            |
| G Nott       | <b>11,000</b>     | 10,000            |
| N Timpson    | <b>11,000</b>     | 10,000            |
| <b>Total</b> | <b>49,500</b>     | 45,000            |

On behalf of the board,

**C A Parritt**

Chairman

24 May 2005

# Independent auditors' statement

## Independent auditors' statement to the members of Baronsmead VCT 2 plc

We have examined the summary financial statement of Baronsmead VCT 2 plc.

This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement 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 work, for this statement, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the summary annual report in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summary annual report with the full annual financial statements, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summary annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

## Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom.

## Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of Baronsmead VCT 2 plc for the year ended 31 March 2005 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

PKF (UK) LLP  
London  
Registered auditors  
24 May 2005

The maintenance and integrity of the Baronsmead VCT 2 web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

# Profit and loss account

for the year ended 31 March 2005

|   | Ordinary shares          |                          |                        | C shares                 |                          |                        | Total                    |                          |                        |
|---|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
|   | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 |
| Profit on realisation of investments                        | –                        | 822                      | 822                    | –                        | –                        | –                      | –                        | 822                      | 822                    |
| Income  | 1,511                    | –                        | 1,511                  | 383                      | –                        | 383                    | 1,894                    | –                        | 1,894                  |
| Investment management fee                                   | (255)                    | (2,418)                  | (2,673)                | (43)                     | (129)                    | (172)                  | (298)                    | (2,547)                  | (2,845)                |
| Other expenses  | (272)                    | –                        | (272)                  | (57)                     | –                        | (57)                   | (329)                    | –                        | (329)                  |
| <b>Profit/(loss) on ordinary activities before taxation</b> | <b>984</b>               | <b>(1,596)</b>           | <b>(612)</b>           | <b>283</b>               | <b>(129)</b>             | <b>154</b>             | <b>1,267</b>             | <b>(1,725)</b>           | <b>(458)</b>           |
| Tax on ordinary activities                                  | (177)                    | 206                      | 29                     | (54)                     | 25                       | (29)                   | (231)                    | 231                      | –                      |
| <b>Profit/(loss) on ordinary activities after taxation</b>  | <b>807</b>               | <b>(1,390)</b>           | <b>(583)</b>           | <b>229</b>               | <b>(104)</b>             | <b>125</b>             | <b>1,036</b>             | <b>(1,494)</b>           | <b>(458)</b>           |
| Dividends paid and proposed                                 | (792)                    | (1,294)                  | (2,086)                | (220)                    | –                        | (220)                  | (1,012)                  | (1,294)                  | (2,306)                |
| Retained gain/(loss) transferred to/(from) reserves         | 15                       | (2,684)                  | (2,669)                | 9                        | (104)                    | (95)                   | 24                       | (2,788)                  | (2,764)                |
| <b>Return per ordinary share/C share</b>                    | <b>1.92p</b>             | <b>(3.31)p</b>           | <b>(1.39)p</b>         | <b>1.49p</b>             | <b>(0.68)p</b>           | <b>0.81p</b>           | <b>1.81p</b>             | <b>(2.61)p</b>           | <b>(0.80)p</b>         |

# Statement of total recognised gains and losses

for the year ended 31 March 2005

|   | Ordinary shares          |                          |                        | C shares                 |                          |                        | Total                    |                          |                        |
|---|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|--------------------------|--------------------------|------------------------|
|   | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 | 2005<br>Revenue<br>£'000 | 2005<br>Capital<br>£'000 | 2005<br>Total<br>£'000 |
| Profit/(loss) on ordinary activities after taxation     | 807                      | (1,390)                  | (583)                  | 229                      | (104)                    | 125                    | 1,036                    | (1,494)                  | (458)                  |
| Unrealised gain on revaluation of investments           | –                        | 8,219                    | 8,219                  | –                        | 128                      | 128                    | –                        | 8,347                    | 8,347                  |
| <b>Total recognised gain during the year</b>            | <b>807</b>               | <b>6,829</b>             | <b>7,636</b>           | <b>229</b>               | <b>24</b>                | <b>253</b>             | <b>1,036</b>             | <b>6,853</b>             | <b>7,889</b>           |
| <b>Total recognised gain per ordinary share/C share</b> | <b>1.92p</b>             | <b>16.26p</b>            | <b>18.18p</b>          | <b>1.49p</b>             | <b>0.16p</b>             | <b>1.65p</b>           | <b>1.81p</b>             | <b>11.95p</b>            | <b>13.76p</b>          |

# Note of historical cost profits and losses

for the year ended 31 March 2005

|   | 2005<br>£'000 |
|---|---------------|
| Loss on ordinary activities before taxation                             | (458)         |
| Realisation of revaluation gains of previous years                      | 131           |
| <b>Historical cost loss on ordinary activities before taxation</b>      | <b>(327)</b>  |
| Historical cost loss for the year retained after taxation and dividends | (2,633)       |

The C Shares were launched on 3 September 2004.

All items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

# Balance sheet

As at 31 March 2005

|  | 2005                        |                      |                | 2004                        |
|--|-----------------------------|----------------------|----------------|-----------------------------|
|  | Ordinary<br>shares<br>£'000 | C<br>shares<br>£'000 | Total<br>£'000 | Ordinary<br>shares<br>£'000 |
| <b>Fixed assets</b>                                    |                             |                      |                |                             |
| Investments  | 46,807                      | 18,812               | 65,619         | 36,734                      |
| <b>Current assets</b>                                  |                             |                      |                |                             |
| Debtors  | 299                         | 302                  | 601            | 370                         |
| Cash at bank and on deposit                            | 4,100                       | 2,589                | 6,689          | 4,856                       |
|  | 4,399                       | 2,891                | 7,290          | 5,226                       |
| <b>Creditors</b> (amounts falling due within one year) | (3,275)                     | (752)                | (4,027)        | (317)                       |
| <b>Net current assets</b>                              | 1,124                       | 2,139                | 3,263          | 4,909                       |
| <b>Net assets</b>                                      | 47,931                      | 20,951               | 68,882         | 41,643                      |
| <b>Capital and reserves</b>                            |                             |                      |                |                             |
| Called-up share capital                                | 4,145                       | 11,000               | 15,145         | 4,088                       |
| Share premium account                                  | 2,551                       | 9,918                | 12,469         | 745                         |
| Capital redemption reserve                             | 232                         | –                    | 232            | 100                         |
| Revaluation reserve                                    | 12,562                      | 128                  | 12,690         | 3,665                       |
| Profit and loss account                                | 28,441                      | (95)                 | 28,346         | 33,045                      |
| <b>Equity shareholders' funds</b>                      | 47,931                      | 20,951               | 68,882         | 41,643                      |
| <b>Net asset value per share – Basic</b>               | 115.63p                     | 95.23p               | –              | 101.88p                     |

The summary financial statement was approved by the board of directors on 24 May 2005 and was signed on its behalf by:



CLIVE A PARRITT (Chairman)

# Notice of annual general meeting

**Notice is hereby given that the seventh annual general meeting of Baronsmead VCT 2 plc will be held at the offices of F&C Asset Management plc, Exchange House, Primrose Street, London EC2A 2NY, on 20 June 2005 at 11.00 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 2005 be received.
2. That the directors' remuneration report for the year to 31 March 2005 be approved.
3. To approve payment of a final dividend of 2.7 pence per ordinary share and 1.0 pence per C share.
4. That Mr C Parritt, who retires by rotation at the annual general meeting, be re-elected as a director.
5. That Mr N Timpson, who retires by rotation at the annual general meeting, be re-elected as a director.
6. That KPMG Audit Plc, Chartered Accountants, be appointed as auditors and that the directors be authorised to determine their remuneration.

## **Special business**

### *Ordinary resolutions*

7. That:
  - (a) the directors of the company (the "directors") be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £11,330,882 during the period commencing on the passing of this resolution and expiring on 15 June 2010 (unless previously revoked, varied or extended by the company in general meeting), but so that this authority shall allow the company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and
  - (b) all previous authorities given to the directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

### *Special resolutions*

8. That subject to the passing of resolution 7 set out in the notice of this meeting:
  - (a) the directors of the company (the "directors") be and are hereby empowered, pursuant to section 95(1) 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 £4,532,353;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 and in this resolution "allot" and "allotment" shall be construed in accordance with section 94(3A) of the Act;
  - (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.
9. 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 6,157,656;
  - (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 not exceed the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase;
  - (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2006 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.
10. 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 C shares of 50p each in the company ("C shares"), provided that:
  - (a) the maximum number of C shares hereby authorised to be purchased shall be 3,297,800;
  - (b) the minimum price which may be paid for each C share is 50p;
  - (c) the maximum price which may be paid for a C share shall be equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase;
  - (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company in 2006 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 C 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

### **Robert Coulter**

for F&C Asset Management plc, *secretary*  
80 George Street  
Edinburgh EH2 3BU

24 May 2005

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, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3ZZ at least 48 hours before the meeting. A proxy card for use by shareholders is enclosed. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.

# 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, on 0870 703 0137, or by writing to them at Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

## Dividend reinvestment scheme

The company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the company secretary at the address shown on the back cover.

## Share price

The company's ordinary shares and C shares are listed on the London Stock Exchange. The mid-price of the company's ordinary shares and C shares is given daily in the *Financial Times* in the Investment Companies section of the London Share Service. Share price information can also be obtained from many financial websites.

## Trading shares

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

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

Please call the company secretary, whose details are printed below, if you or your adviser have any questions about this process.

## 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, Computershare Investor Services PLC, under the signature of the registered holder.

## Financial calendar

|               |  |
|---------------|--|
| 20 June 2005  | Annual general meeting – offices of F&C Asset Management plc                     |
| 28 June 2005  | Final dividend paid to ordinary and C shareholders for the year to 31 March 2005 |
| August 2005   | VCT factsheet sent to shareholders   |
| November 2005 | Posting of interim report  |
| December 2005 | Interim dividend paid  |
| February 2006 | VCT factsheet sent to shareholders   |
| May 2006      | Announcement of final results for year to 31 March 2006                          |

## VCT workshops

A workshop for shareholders and their advisers will be held at the offices of the investment managers, Exchange House, Primrose Street, London EC2A 2NY, at 1.30 pm on 20 June 2005 following the annual general meeting.

## Enquiries

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

|                                 |    |                                   |
|---------------------------------|----|-----------------------------------|
| David Thorp, investment manager | or | Robert Coulter, company secretary |
| Telephone: 020 7506 1609        |    | 0131 465 1016                     |
| Fax: 020 7601 1787              |    | 0131 225 2375                     |
| Address: Exchange House         |    | 80 George Street                  |
| Primrose Street                 |    | Edinburgh                         |
| London EC2A 2NY                 |    | EH2 3BU                           |
| E-mail david.thorp@isisep.com   |    | robert.coulter@fandc.com          |

F&C Broker Support Helpline: 08457 99 22 99.

\*Telephone calls may be recorded.

# Corporate information

## Directors

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

## Secretary

F&C Asset Management plc  
80 George Street  
Edinburgh EH2 3BU

## Investment managers

ISIS Equity Partners plc  
Exchange House  
Primrose Street  
London EC2A 2NY

## Registered office

Exchange House  
Primrose Street  
London EC2A 2NY

## VCT status adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Registrars and transfer office

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
Tel: 0870 703 0137

## Brokers

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

## Auditors

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London EC1M 3AP

## Solicitors

Norton Rose  
Kempson House  
Camomile Street  
London EC3A 7AN

[www.baronsmeadvct2.co.uk](http://www.baronsmeadvct2.co.uk)

## Registrar enquiries

*Computershare Investor Services PLC contact details*

|                      |  |
|----------------------|--|
| Shareholder Helpline | 0870 703 0137  |
| e-mail               | <a href="mailto:web.queries@computershare.co.uk">web.queries@computershare.co.uk</a> |
| Internet             | <a href="http://www.computershare.com">www.computershare.com</a>                     |

### *Share dealing service*

Computershare Investor Services PLC offer a dealing service. If shareholders have any questions about this service or other enquiries in respect of their shareholding please contact Computershare directly.

### *Investor centre*

A free Internet based service provided by our registrars which enables shareholders to manage their share portfolio online. Once registered shareholders will be able to access the following information:

- view their share portfolio
- see the market price of their shares
- calculate the total market value of each shareholding as well as the overall share portfolio in a choice of currencies
- view transaction history and dividend payment history
- online update facility for change of address and dividend mandate instructions

To join this service please visit: [www-uk.computershare.com/investor](http://www-uk.computershare.com/investor)

\*Telephone calls may be recorded.

## ISIS Equity Partners plc – Investment managers

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

F&C Asset Management plc is listed on the London Stock Exchange and has offices in London, Edinburgh, Boston, Frankfurt, Lisbon, Paris, Amsterdam and Dublin.