

# Baronsmead VCT 2 plc

## 2002

Interim report for the  
six months ended  
30 September 2002



# Investment Objective

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

## Investment Policy

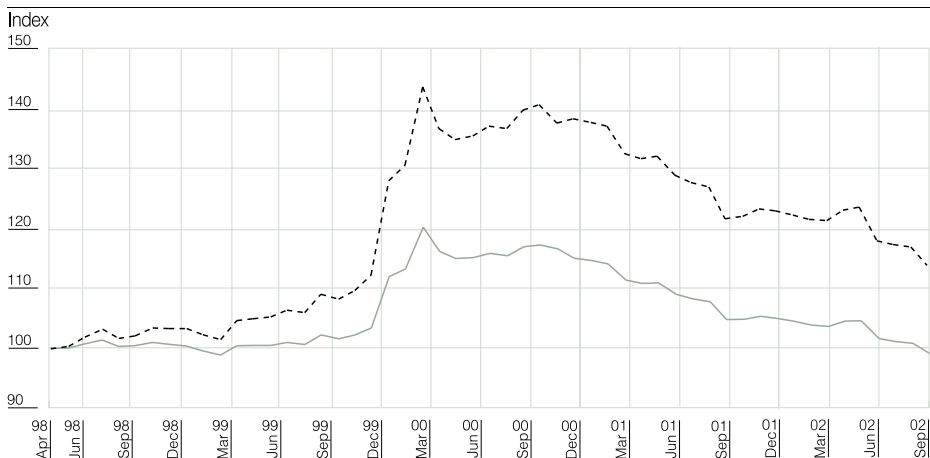
- To invest primarily in a diverse portfolio of established and profitable UK unquoted companies which are seeking to raise expansion capital or are the subject of a management buy out or buy in.
- Investments include companies raising new share capital on the Alternative Investment Market.
- Selective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

# Financial Highlights

Net asset value fell by 6.8 per cent  
 Interim dividend of 1.0p declared (2001 – 1.3p)  
 Investments in period increased to 43 companies  
 Total return since launch 13.1 per cent

## Baronsmead VCT 2 plc

### Net asset value and net asset value total return



--- Net asset value total return (gross dividends reinvested)

(Index restated to 100)

— Net asset value

Source: ISIS Asset Management

## Performance summary

	30 September 2002	31 March 2002	% Change
<b>Ordinary shares – capital values</b>			
Net asset value per share	<b>93.69p</b>	100.54p	(6.8)
Share price (mid market)	<b>87.50p</b>	92.50p	(5.4)
Discount	<b>(6.6%)</b>	(8.0%)	–
Net asset value total return in period*	<b>(5.9%)</b>	(8.0%)	–
Net asset value total return since launch*	<b>13.1%</b>	20.2%	–
<b>Total assets (net of issue expenses)</b>	<b>£38.4m</b>	£41.2m	(6.8)
	<b>Six months ended 30 September 2002</b>	Six months ended 30 September 2001	% Change
<b>Revenue and dividends</b>			
Earnings per ordinary share	<b>1.18p</b>	1.63p	(27.6)
Dividends per ordinary share	<b>1.00p</b>	1.30p	(23.1)

\*Net asset value total return assuming gross dividends reinvested

# Chairman's Statement

**The last six months has been a period of sharply falling stock market prices. Baronsmead VCT2 has held and continues to hold significant funds in cash or fixed interest securities. This and our portfolio diversity (particularly in unquoted investments) has provided some protection against market volatility resulting in relative out performance against the FTSE All-Share and its peer group of generalist VCTs.**

**Achieved results** | During the six months to 30 September 2002 the net asset value per share has decreased by 6.8 per cent from 100.5p to 93.7p per share after the proposed interim dividend of 1.0p per share. While not directly comparable because 50.7p of our assets are in cash or fixed interest securities, the result can still be judged favourably with the FTSE All-Share, which fell 29.6 per cent over the same period.

Since launch Baronsmead VCT 2 has generated a positive total return (dividends paid plus change in NAV) of 13.1 per cent which compares to a 28.6 per cent reduction in the FTSE All-Share over the same period. This out performance differential is further increased if the VCT tax reliefs are taken into account.

The Board has declared an interim dividend of 1.0p per share (1.3p in 2001) which will be paid on 13 December 2002 to shareholders on the register at close of business on 15 November 2002. Total dividends of 14.4p per share have been paid since launch.

**Investment environment** | In my last Chairman's Statement in May 2002 I was optimistic that the UK economy was showing signs of stabilisation. However the lack of current investor confidence has eroded stock market prices still further, which in turn has had an impact on our portfolio valuations. Additionally the level of merger and acquisition activity has reduced which has been reflected in the recent level of new investments.

The number of investment proposals received and considered by the Investment Manager is constantly monitored. Whilst there has been a sharp decrease in 'early stage' investment opportunities, the number of mature business proposals seriously considered is comparable to the levels of previous years. The Manager has opened an office in Manchester and strengthened

the investment team to increase market share in this regard. However one trend of the current economic environment is that investments are taking longer to complete. All stakeholders and potential investors want to be certain that an increasing number of issues have been resolved before funds are committed.

**Investment rate** | The VCT legislation requires 70 per cent of the value of funds raised to be invested in qualifying investments within three years. This means that for Baronsmead VCT 2 to maintain its tax status as a VCT, a further £8 million to £9 million of investment is required before 31 March 2003. In seeking to achieve this challenging rate of investment, however, the Manager, rightly, is unwilling to sacrifice quality.

Recently the flow of good opportunities has started to accelerate and the Manager believes that this upturn should enable the 70 per cent test to be met. However, to enhance the flow of investment opportunities the Manager has undertaken a number of initiatives including extending its geographical reach with a local presence in the North of England. Additionally the Board has agreed that, where applicable, a larger share of unquoted investments will be apportioned to your Company. This aids the ability of Baronsmead VCT 2 and other clients of the Manager to invest collectively in larger transactions (typically with a deal value of between £3 million and £6 million).

**Portfolio performance** | Five new investments and one further investment were made in the six-month period to 30 September 2002 totalling £2.4 million.

● **Fretwell Downing Informatics – international supplier of library management solutions**

Based in Sheffield, FDI provides software solutions to public, research and corporate libraries across the UK, the USA and Australia. Baronsmead VCT 2 provided £565,000 of the £3.2 million development capital.

● **Rarrigini & Rosso – provider of insurance products and developer of brokering IT solutions**

Based in Peterborough, R&R provide a range of insurance products (motor fleet, property and haulage) to an extensive network of insurance brokers. Through these broker relationships it

# Chairman's Statement

has launched a new outsourced service providing all the IT needs of running full front and back office support to the broker. £526,900 was invested as part of the £5 million raised to develop this new IT service.

- **i-documentsystems – provider of document management systems to local authorities**  
i-documentsystems is based in London and raised £1.2 million as a placing on AiM both to acquire The Planning Exchange and also to provide working capital to fund the rollout of its document and management solutions throughout Local Government. Baronsmead VCT 2 invested £400,000.
- **MEM Entertainment – building an audio-visual publishing group**  
MEM raised £10.3 million to make two acquisitions; Leisureview, a niche video publishing business and Fountain, the UK's largest independent television studio. Baronsmead VCT 2 invested £360,000 as part of the £3.4 million raising on AiM.
- **VI Group – supplier of CAD/CAD software to the mould and die industry**  
Baronsmead VCT 2 invested £500,000 of a £3.2 million placing on AiM. The financing round is being used to widen their software offering and strengthen their distribution channel internationally.

A further investment of £80,800 was made in kidsunlimited.

The Business Service and Consumer market sectors continue to provide the majority of the investments in the portfolio, representing 35 per cent and 36 per cent by value respectively.

As shareholders will appreciate the nature of our business involves the taking of risk and, despite thorough due diligence, it is inevitable that some of our investments will not succeed. Indeed problems tend to become evident before the successes are recorded and in the last six months there have been a number of disappointments. Both Demica and 4:2:2 have found conditions tough in their respective markets with clients freezing spending plans. Almost full provisions have been made against these investments. In addition James Gilbert has subsequently been sold at a total loss following a continued period of poor trading.

On the positive side it is possible that a number of profitable realisations will occur in the second half of this year. The policy of Baronsmead VCT 2 is to primarily invest in growing established and profitable businesses. As described at the AGM on 21 June 2002 the top five investees had achieved average sales and operating growth for each of the last two years at rates of more than 20 per cent per annum. These businesses continue to make good progress.

**Meeting shareholders' needs** | The Board of Baronsmead VCT 2 plc is dedicated to providing shareholders with clear and regular communication as well as offering financial planning choices. We continue to try to lead the market in this regard since we believe that it is vital for you, our shareholders, to understand fully the progress of your investment. There will be a series of workshops from January 2003 for all shareholders, but particularly those who subscribed before April 1998 and after April 2000 and who are now approaching the end of their holding period. Further details will be sent to shareholders in December.

In the six months to 30 September 2002, 145,389 new shares were issued and 135,000 shares bought back. The Board has decided that, on this occasion, it will not be making a top-up offer to shareholders.

**Outlook** | The plan remains unchanged. We intend to build a portfolio of around 50 primarily established and profitable companies and we are making good progress towards this target. The increased level of dealflow in recent times should translate itself into a significant number of completed deals in the next few quarters. The Managers intend to invest in quality business propositions and the portfolio should benefit from the lower prices, which are resulting from the current economic conditions. Certainly your Board and the Managers believe that there are opportunities in a tough market and the Managers constantly try to identify investments with above average potential.

## Clive Parritt

Chairman  
1 November 2002

# Unaudited Statement of Total Return

(Incorporating the Revenue Account)

For the Six Months to 30 September 2002

	Six months to 30 September 2002		
	Revenue £'000	Capital £'000	Total £'000
Losses on investments	–	(2,685)	(2,685)
Income	878	–	878
Investment management fee	(99)	(298)	(397)
Other expenses	(150)	–	(150)
<b>Return on ordinary activities before tax</b>	<b>629</b>	<b>(2,983)</b>	<b>(2,354)</b>
Tax on ordinary activities	(146)	92	(54)
<b>Return attributable to equity shareholders</b>	<b>483</b>	<b>(2,891)</b>	<b>(2,408)</b>
Dividends in respect of equity shares	(408)	–	(408)
Transfer to/(from) reserves	75	(2,891)	(2,816)
<b>Return per ordinary 10p share:</b>			
Basic	<b>1.18p</b>	<b>(7.06p)</b>	<b>(5.88p)</b>

## Notes

1. The unaudited interim results have been prepared on the basis of the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2002.
2. Earnings for the first six months should not be taken as a guide to the results of the full year.
3. Return per ordinary share is based on a weighted average of 40,959,970 ordinary shares in issue (31 March 2002 – 40,622,274, 30 September 2001 – 40,410,603).
4. During the six months ended 30 September 2002 the Company issued 145,389 ordinary shares and bought for cancellation 135,000 ordinary shares at a cost of £123,450. There were 40,981,575 ordinary shares in issue at 30 September 2002 (31 March 2002 – 40,971,186, 30 September 2001 – 40,684,102).

Six months to 30 September 2001		
Revenue £'000	Capital £'000	Total £'000
–	(3,937)	(3,937)
1,147	–	1,147
(118)	(354)	(472)
(180)	–	(180)
849	(4,291)	(3,442)
(190)	85	(105)
659	(4,206)	(3,547)
(529)	–	(529)
130	(4,206)	(4,076)
1.63p	(10.41p)	(8.78p)

Year to 31 March 2002		
Revenue £'000	Capital £'000	Total £'000
–	(4,410)	(4,410)
2,135	–	2,135
(210)	(630)	(840)
(335)	–	(335)
1,590	(5,040)	(3,450)
(434)	200	(234)
1,156	(4,840)	(3,684)
(1,142)	–	(1,142)
14	(4,840)	(4,826)
2.84p	(11.91p)	(9.07p)

5. The interim dividend of 1.0p per ordinary share will be paid on 13 December 2002 to shareholders on the register on 15 November 2002.
6. These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. The full audited accounts for the year ended 31 March 2002, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2002 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
7. Copies of the Interim Report, which has been reviewed by the Company's auditors, have been mailed to shareholders and are available for inspection at the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

# Unaudited Balance Sheet

	As at 30 September 2002 £'000	As at 30 September 2001 £'000	As at 31 March 2002 £'000
<b>Fixed assets</b>			
<b>Investments</b>			
Listed investments	364	651	673
Quoted on the Alternative Investment Market	5,785	3,945	5,301
Quoted on OFEX	147	419	266
Unquoted investments	11,308	10,503	11,950
Listed fixed interest investments	20,557	22,730	21,477
	<b>38,161</b>	38,248	39,667
<b>Current assets</b>			
Debtors	1,068	1,592	1,082
Cash at bank and on deposit	81	3,402	2,752
	<b>1,149</b>	4,994	3,834
<b>Creditors: amounts falling due within one year</b>	<b>(916)</b>	(1,621)	(2,307)
<b>Net current assets</b>	<b>233</b>	3,373	1,527
<b>Total assets less current liabilities</b>	<b>38,394</b>	41,621	41,194
<b>Capital and reserves</b>			
Called-up share capital	4,098	4,068	4,097
Share premium account	39,979	39,670	39,964
Other reserves –			
Capital reserve – realised	(1,950)	(1,815)	(1,667)
Capital reserve – unrealised	(3,851)	(461)	(1,243)
Revenue reserve	118	159	43
<b>Equity shareholders' funds</b>	<b>38,394</b>	41,621	41,194
<b>Net asset value per share:</b>			
Ordinary	<b>93.69p</b>	102.30p	100.54p
Number of shares in issue at balance sheet date	<b>40,981,575</b>	40,684,102	40,971,186



# Summarised Unaudited Statement of Cash Flows

	Six months to 30 September 2002 £'000	Six months to 30 September 2001 £'000	Year to 31 March 2002 £'000
Net cash inflow/(outflow) from operating activities	371	(97)	816
Taxation	–	–	(203)
Capital expenditure and financial investment	(2,374)	3,270	2,106
Equity dividends paid	(614)	(882)	(1,409)
Net cash (outflow)/inflow before financing	(2,617)	2,291	1,310
Financing	(54)	672	1,003
(Decrease)/increase in cash	(2,671)	2,963	2,313
<b>Reconciliation of net cash flow to movement in net cash</b>			
(Decrease)/increase in cash	(2,671)	2,963	2,313
Net cash at 1 April	2,752	439	439
Net cash at 30 September/31 March	81	3,402	2,752
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Net return before finance costs and taxation	629	849	1,590
Investment management fee charged to capital	(298)	4	(630)
Changes in working capital and other non cash items	40	(950)	(144)
Net cash inflow/(outflow) from operating activities	371	(97)	816

# Investment Portfolio

Company	Book Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities
<b>Unquoted</b>			
Tricom Supplies	46	1,775	4.62
Thomas Sanderson	667	1,236	3.22
Fat Face	500	1,110	2.89
AIMS Group	1,000	1,000	2.60
BodyCare International	1,000	1,000	2.60
Job Opportunities	786	911	2.37
Kondor	1,000	900	2.35
Fretwell Downing	565	565	1.47
kidsunlimited	481	539	1.41
Vectura	529	529	1.38
Rarrigini & Rosso	527	527	1.37
Searchspace	500	500	1.30
Staffline	814	366	0.95
Blue 8	319	321	0.84
Demica	1,000	29	0.08
422	1,322	–	–
James Gilbert	1,051	–	–
Imerge	500	–	–
Conclusive	457	–	–
<b>Total unquoted</b>	<b>13,064</b>	<b>11,308</b>	<b>29.45</b>
<b>Traded on AiM</b>			
Inter Link Foods	627	1,221	3.18
Stagecoach Theatre Arts	418	495	1.29
Murgitroyd Group	500	481	1.25
VI Group	500	442	1.15
Medal Entertainment & Media	360	419	1.09
Fitzhardinge	470	419	1.09
i-documentsystems	400	404	1.05
Biofocus	680	378	0.99
NeuTec Pharma	317	317	0.83
ATA Group	355	302	0.79
Landround	566	278	0.73
Conder Environmental	340	145	0.38
Giardino Group	288	116	0.30
Blooms of Bressingham	320	115	0.30
Capcon Holdings	137	98	0.26
Premier Direct	202	78	0.20
Top Ten	282	24	0.06
NMT Group	351	20	0.05
Highams Systems Services	197	20	0.05
Charterhouse Communications	355	13	0.03
<b>Total AiM</b>	<b>7,665</b>	<b>5,785</b>	<b>15.07</b>
<b>Traded on OFEX</b>			
Chemistry Communications	500	147	0.38
<b>Total OFEX</b>	<b>500</b>	<b>147</b>	<b>0.38</b>
<b>Listed</b>			
SDL	270	215	0.56
Sirius Financial Solutions	150	125	0.33
AorTech International	285	24	0.06
<b>Total listed</b>	<b>705</b>	<b>364</b>	<b>0.95</b>
<b>Fixed interest securities</b>	<b>20,304</b>	<b>20,557</b>	<b>53.54</b>
<b>Total investments</b>	<b>42,238</b>	<b>38,161</b>	<b>99.39</b>
<b>Net current assets</b>		<b>233</b>	<b>0.61</b>
<b>Total assets</b>		<b>38,394</b>	<b>100.00</b>

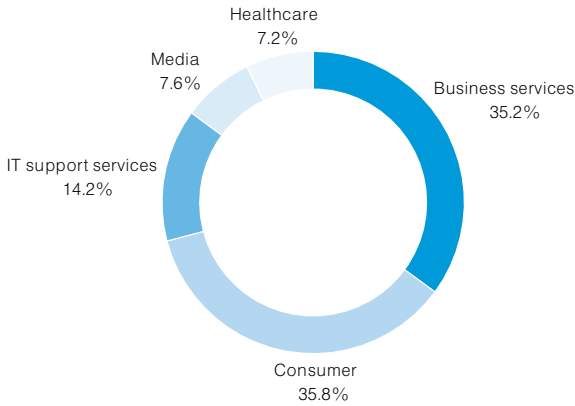
# Investment Classification

Portfolio Diversified by Sector . . .

## Company Investments

(excluding fixed interest portfolio)

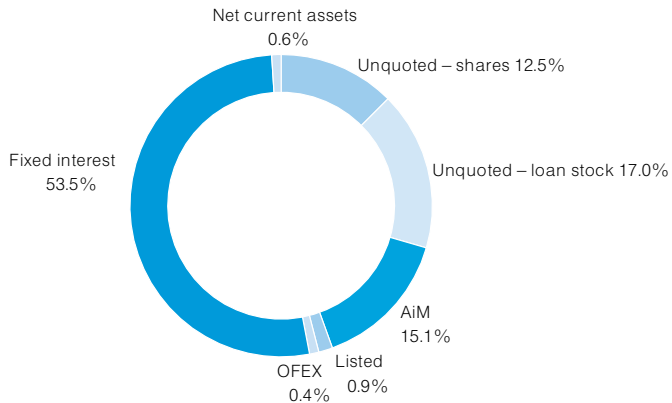
**Sector Analysis by value** as at 30 September 2002



. . . and by Asset Classification

## Total Assets

**Market Analysis by value** as at 30 September 2002



# Top Ten Holdings

## Company

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### **Tricom Supplies Limited, Bedford** (Investment made November 1998)

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

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### **Thomas Sanderson, Waterlooville** (Investment made March 2001)

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

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### **Inter Link Foods PLC, Blackburn** (Investments made August 1998 and January 2001)

Inter Link Foods manufactures and sells own label cakes and pastry products to major retail groups. The company joined AiM in August 1998 raising £2.1 million for expansion including additional product machinery. In January 2001 a second round of funding raised £5.4 million.

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### **Fat Face Limited, Havant** (Investment made February 2000)

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

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### **AIMS Group, Towcester** (Investment made February 2002)

AIMS Group specialises in the provision of environmental health and safety support services for the 'indoor' environment. In February 2002, £3 million of institutional equity was raised as part of a shareholder restructuring.

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### **BodyCare International Limited, Nottingham** (Investment made November 2001)

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

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### **Job Opportunities, Berkhamsted** (Investment made September 2000)

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

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### **Kondor Limited, Ringwood** (Investment made May 2000)

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

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### **Fretwell Downing, Sheffield** (Investment made April 2002)

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

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### **kidsunlimited, Wilmslow** (Investments made June 2001 and July 2002)

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

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# Independent Review Report to Baronsmead VCT 2 plc

## **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 September 2002 which comprises the Statement of Total Return, Balance Sheet, Statement of Cash Flows and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2002.

PKF  
Chartered accountants  
London, UK

1 November 2002

# Shareholder Information

## Dividends

An interim dividend is paid to shareholders in December. The final dividend is paid in July. Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained from the Company's registrar, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.

## Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details of the dividend reinvestment scheme can be obtained from Michael Probin, VCT Investor Relations Manager.

## Share Prices

The Company's ordinary shares are listed on the London Stock Exchange. Prices are given daily in the *Financial Times* for the ordinary shares under "Investment Companies".

## Change of Address

Communications with shareholders are mailed to the address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Northern Registrars Limited, under the signature of the registered holder.

## Financial Calendar

May 2003	Announcement of annual results for the year ended 31 March 2003
May 2003	Posting of annual report for the year ended 31 March 2003
June 2003	Annual General Meeting
November 2003	Announcement of interim results for the six months ended 30 September 2003

## VCT Workshops

Workshops for shareholders and their advisers are being held on the following dates and will be held at the offices of the Investment Managers at 2.30 pm on each date: 18 November 2002, 20 January 2003 and 17 March 2003.

## Enquiries

Contact Michael Probin, VCT Investor Relations Manager for Baronsmead VCT 2 plc:

Telephone: 020 7506 1651\*

Fax: 020 7601 1787

e-mail: michael.probin@isisam.com

\*(Telephone calls may be recorded)

Baronsmead VCT 2 plc is managed by ISIS Equity Partners plc a wholly owned subsidiary of ISIS Asset Management plc which is regulated by the Financial Services Authority. Past performance is not necessarily a guide to future performance. Stockmarkets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in unquoted securities and smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment.

# Corporate Information

## Directors

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

## Secretary

ISIS Asset Management plc  
One Charlotte Square  
Edinburgh EH2 4DZ

## Registered Office and Investment Managers

ISIS Equity Partners plc  
100 Wood Street  
London EC2V 7AN

## Fixed Interest Portfolio Managers

Cazenove Fund Management Limited  
12 Moorgate  
London EC2R 6DA

## VCT Status Adviser

PricewaterhouseCoopers  
Chartered Accountants  
1 Embankment Place  
London WC2N 6RH

## Registrars and Transfer Office

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

## Stockbrokers

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

## Auditors

PKF  
New Garden House  
Hatton Garden  
London EC1N 8JA

## Solicitors

Norton Rose  
Kempson House  
Camomile Street  
London EC3A 7AN