

Baronsmead VCT 2 plc

Investing in growth businesses generating tax-free dividends

2008

Half-yearly report for
the six months ended
31 March 2008



Managed by ISIS EP LLP

ISIS / Baronsmead
EQUITY PARTNERS VCT 2

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 UK growth businesses, whether unquoted or traded on AiM.
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Dividend policy

The Board will aim to sustain annual dividends at an average of 5.5p 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 and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Since launch the average annual tax-free dividend paid to ordinary shareholders has been 6.4p per share (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer).

Based on a share price of 94.5p at the period end, this represents a yield of 6.8 per cent or a gross equivalent yield for higher rate taxpayers of 10.0 per cent.

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 (individuals over the age of 18 and UK resident for tax purposes) 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.

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. The UK tax treatment of VCTs is on a first in first out basis and therefore tax advice should be obtained before shareholders dispose of their shares and also if they deferred Capital Gains Tax in respect of new shares acquired prior to 6 April 2004.

www.baronsmeadvct2.co.uk

If you have sold or otherwise transferred all of your ordinary shares in Baronsmead VCT 2 plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Financial Highlights

-7.2%

NAV per ordinary share over the six month period to 31 March 2008 decreased by 7.2 per cent from 112.19p to 104.08p before payment of a 3.0p interim dividend.

+94.5%

NAV total return to ordinary shareholders since launch in 1998, equivalent to an annualised total return of 6.9 per cent before 20 per cent income tax relief (on subscription, at launch) and 8.6 per cent afterwards.

+82%

Ordinary share price total return over the five years to 31 March 2008, equivalent to an annualised tax free return of 12.7 per cent.

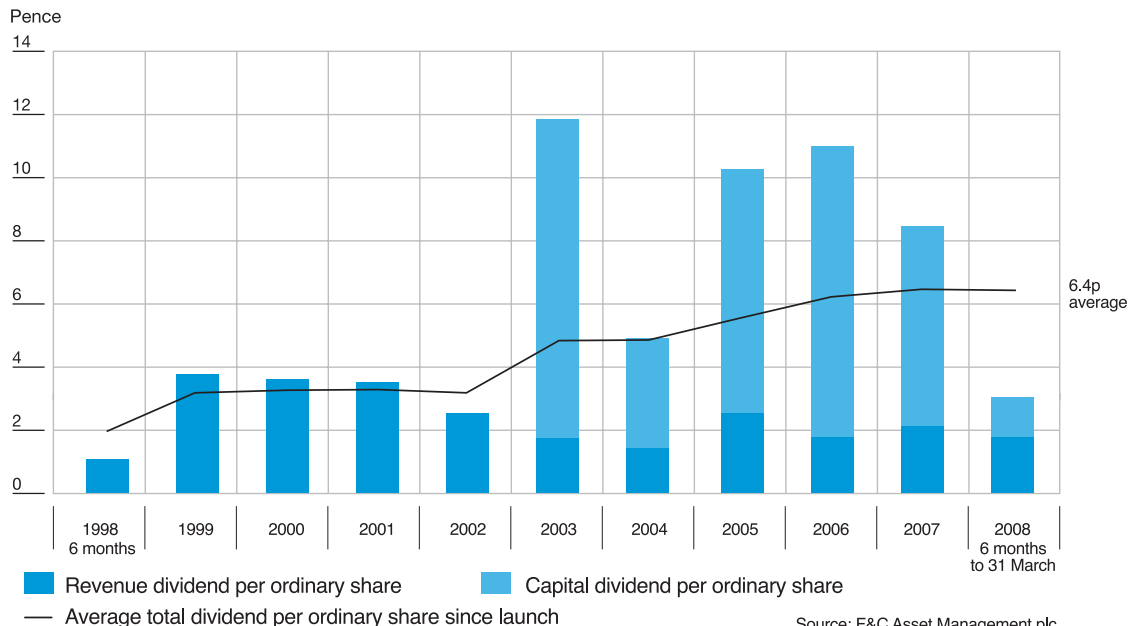
£1.79m

Subscribed by 230 existing shareholders in December 2007 after top up offer closed oversubscribed.

£3.1m

Profits realised from sale of three unquoted investments in the period. A further £1.4 million profit was realised from the sale of kidsunlimited after the period end.

Dividend history since launch

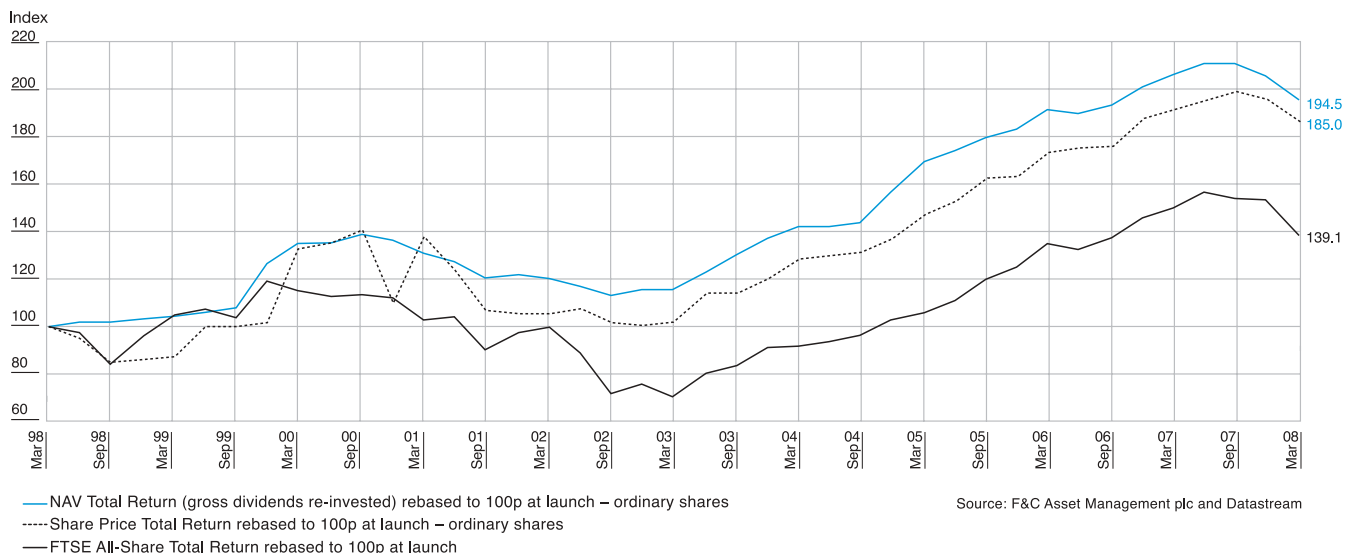


Note: The dividend history above illustrates dividends paid by reference to periods ending on 30 September, being the Company's year end. Until 2007, the Company's year end was 31 March.

Financial Highlights

Baronsmead VCT 2 plc

Net asset value total return and share price total return since launch against the FTSE All-share Index total return



AIC methodology: The NAV total return to the investor, including the original amount invested (rebased to 100) from launch, assuming that dividends paid were re-invested at NAV of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

Performance Summary to 31 March 2008

Total return	6 month %	1 year %	3 year %	5 Year %	Since launch (2 April 1998) %
Net asset value	(7.2)	(5.2)	+15.3	+68.4	+94.5
Share price	(6.4)	(2.7)	+26.2	+81.5	+85.0
FTSE All-share	(10.2)	(7.7)	+31.3	+98.7	+39.1

Cash Returned to Shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid/payable p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	100	20.0	80.0	63.9	8.0	11.8
1999 (May) – Ordinary	102	20.4	81.6	60.4	8.2	12.2
2000 (February) – Ordinary	137	27.4	109.6	57.2	6.5	9.7
2000 (March) – Ordinary	130	26.0	104.0	57.2	6.9	10.2
2004 (October) – C	100	40.0	60.0	16.0‡	7.6	11.3

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.

*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.

‡Includes 11.5p dividends paid post conversion, adjusted by the rate at which C shares were converted to ordinary shares (0.9657).

Chairman's Statement

In the present economic conditions, stock market sentiment has moved away from UK smaller companies, with the result that valuations in the sector have fallen significantly. This is particularly noticeable in the AiM market where, in the last six months the value of our portfolio has fallen by 26 per cent (8.8p a share). In many cases the market has marked down the price of AiM investments even though the companies affected have delivered good trading performance. The unquoted portfolio has also been affected although the impact is less marked as positive trading results have helped underpin valuations.

Some profitable fast growth companies can still command premium prices, despite these economic conditions. Since 1 October 2007 four unquoted investments (including kidsunlimited after the period end), have been sold very profitably and contributed a healthy addition to the reserves from which future dividends can be paid. On the other hand the Manager has been able to take advantage of the generally lower prices in the market in order to achieve a higher level of new investment in the six months to 31 March 2008.

Our longer term performance remains firm but, inevitably, the portfolio has been affected by the down turn. At present we have lower expectations but we do plan to benefit from the up-swing when it comes.

Results

In the six months to 31 March 2008, the Net Asset Value (NAV) per ordinary share decreased by 7.2 per cent from 112.19p to 104.08p before payment (on 20 June 2008) of a 3p per share interim dividend. This dividend represents 1.2p per share of distributed capital profits and 1.8p per share of net revenue. The capital is largely attributable to a series of profitable realisations, latterly from investments in Boldon James, RLA, and Hawksmere together with kidsunlimited which was sold shortly after the period end. All were sold at a significant uplift over cost.

Baronsmead VCT 2 continued to meet the six VCT operational tests during the period. At the period end, 78.8 per cent of the ordinary capital raised (net of launch costs) prior to 30 September 2005 was invested in VCT qualifying investments.

The decrease in Net Assets of 7.2 per cent is largely attributable to the reduction in value of the AiM portfolio which amounted to £5.4 million (26 per cent). Over the six month period, this 7.2 per cent reduction compares with the FTSE All-Share Index, which fell by 11.75 per cent.

Long term performance

The standard measurements for monitoring investment performance are based either on the net asset value (NAV) plus dividends paid (known as "NAV total return") or the movement in share price plus dividends paid (known as "share price total return"). The latter is particularly relevant to investors who buy in the secondary market.

Other measures include dividend yield and cash returned to shareholders. All of these measures are normally stated before the inclusion of VCT tax reliefs. These reliefs were designed to redress both the VCT constraints as well as the higher risks that relate to smaller unquoted and AiM-traded companies.

NAV total return to shareholders since launch in April 1998 amounts to 94.5 per cent which represents an annual compound growth rate of 6.9 per cent and is stated net of all running costs.

Share price total return in the last five years was 82 per cent, which represents an annualised tax-free return of 12.7 per cent. These results compare favourably with other VCTs and fuller comparisons have recently been facilitated by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk. The comparable increase in the FTSE All-Share total return was 98.7 per cent, but this is subject to tax on realisation.

Dividends and yield. By 31 March 2008, (and including the declared interim dividend), dividends totalling 63.9p have been paid to founder shareholders over the last 10 years. Based on the mid share price of 94.5p at the period end, the dividend yield is currently 6.8 per cent tax-free for UK private investors. This is equivalent to a pre-tax return of 10.0 per cent per share for a higher rate tax payer. The Board aims to sustain annual dividends at an average of 5.5p per share, whilst also maintaining a NAV of at least 100p.

Chairman's Statement

Cash returned to shareholders arises from dividends paid and the initial income tax relief that qualifying shareholders can retain beyond the initial holding period. To date, subscribers at launch in 1998 will have received 63.9p of dividends plus up to 20p initial income tax relief. C share subscribers in 2004/5 will have received 16p of dividends and up to 40p income tax relief for every £1 subscribed (provided these shares were retained for more than three years).

Portfolio review

The total portfolio grew to 92 companies after 16 new investments, net of 4 realisations. The new investments set out below totalled £6.3 million in unquoted investments and £2.6 million into AiM-traded investees. For the first time a significant amount (£2.0 million in 7 investees) has been allocated to wholly non-qualifying investments with good prospects of growth. 7 investees companies received additional funding.

The Board reviews the relative health of portfolio companies quarterly, in terms of profitability as well as other non-financial benchmarks. At the period-end, 82 per cent of the portfolio companies were reporting better or steady progress.

The unquoted portfolio changed little in aggregate value over the interim period. The portfolio saw some successful realisations and some strong trading, especially at Scriptswitch and SLR. This was balanced by downgrades arising from market reductions in price earnings ratios or because of expectations not being met. Both EWT and Fishers experienced lower operating profitability in the period.

The AiM part of the portfolio was down 26 per cent predominantly as a result of lower market prices rather than lower trading profits. VCTs must invest in a restricted range of smaller businesses and the shares of these have been hit relatively hard as investors turned to larger and more liquid stocks. All the ten largest AiM holdings

New Investments in the six month period to 31 March 2008

Company	Location	Sector	Activity	Investment Cost (£'000)
Unquoted investments				
Active Assistance	Sevenoaks	Healthcare	Specialist live in care	679
Carnell Contractors	Penkridge, Staffs	Business services	Highway agency services	1,499
CSC (World) †	Pudsey, Leeds	IT	3D structural steel software	1,607
Nexus	Leeds	Business services	Car rental services	1,368
Occam *	Radstock	Business services	Data services	3
Playforce	Wiltshire	Business services	Playground equipment	1,033
Xention Discovery *	Cambridge	Healthcare	Drug discovery	65
Total Unquoted				6,254
AiM-traded investments				
Appian Technology *	Buckinghamshire	IT	Number plate recognition	52
Brulines Holdings **†	Stockton-on-Tees	Business services	Pub management systems	57
Character Group †	New Malden	Media	Toy design and distribution	82
Cohort	Henley-on-Thames	Business services	Services to the defence sector	179
Concateno *†	London	Healthcare	Drug testing	71
Debts.co.uk	Chesterfield	Consumer markets	Debt management	263
Electric Word †	London	Media	B2B publishing	7
Fishworks *	Bath	Consumer markets	Fish restaurants	46
Independent Media Distribution †	London	IT	Digital media distribution	6
Maelor	Chester	Healthcare	Specialist pharmaceuticals	246
Mission Marketing	London	Media	Marketing services agency	247
Optimisa	London	Media	Market research and consultancy	298
Plastics Capital	London	Business services	Plastics products	473
Research Now	London	Media	Online market research	262
STM †	Gibraltar	Business services	Offshore trust administration	140
Tasty *	London	Consumer markets	Restaurant operator	175
Total AiM-traded				2,604
Total investment in the period				8,858

* Further round of financing

† Wholly non-qualifying investments totalled £2.0 million during the period.

Chairman's Statement

reported satisfactory trading but yet in the six months to 31 March 2008, their share prices fell by 18 per cent on average. These companies have little or no borrowings but for investees like Huveaux and Top Ten with high debt levels, negative trading statements resulted in severe price reductions.

The cash realisations set out below show some strong outcomes from selling unquoted investments. In particular, Hawksmere an investment made in December 2003 had experienced difficult trading but had returned to profitability prior to its sale. A new Managing Director and Finance Director joined in summer of 2005 and led the trading recovery. The investment was fully provided as late as June 2006 and valued at nil. The sale of the company in January 2008 resulted in sales proceeds of 2.5 times the original cost of £942,000.

On 4 April 2008, kidsunlimited was sold to a financial buyer at an enterprise value of £45 million representing 4.7 times the cost and realised profits of £1.4 million. Since first investment in 2001, kidsunlimited has successfully rolled out new nurseries to 50 locations with over 4,500 registered places offering premium care in purpose built or designed settings, including gardening clubs, "Soccer Tots" and baby yoga. The business which was transitioned from its founders to a professional management team operates a scalable nursery model in a changing marketplace and has become 'the stand out asset' in the sector.

Issue of New Shares

The top up offer in November 2007 resulted in applications from 230 shareholders (approximately 7 per cent of shareholders) totalling £2.5 million. These subscriptions were scaled back to

69.6 per cent and provided gross proceeds of £1.79 million, being the sterling equivalent of the upper limit allowed under the EU Prospective Directive issued in July 2005.

The third year anniversary of the C share issue occurred between October 2007 to January 2008 meaning that the original subscribers could then sell their shares but also retain the initial income tax relief obtained at the time of subscription. As such, a higher level of trading activity occurred and 1.6 million shares were bought back by the Company in this six month period.

The current market conditions for new investment are more attractive in terms of pricing than for some years and as a consequence the Board is minded to ensure there is sufficient available capital within Baronsmead VCT 2 to exploit the opportunity. The intention is that there will be a new share offer available to shareholders in September 2008 and this will be communicated more clearly to shareholders once the Board has agreed the detailed plan.

Outlook

In recent years we have had a series of strong unquoted realisations. These may be harder to achieve in the current market. However the Manager believes that the present state of the economic cycle will offer significant opportunities to exploit as funds available to invest in developing companies become scarcer. We have sufficient cash resources to seek and complete new investments at the expected lower prices, in anticipation that future growth in the medium term will generate appropriate investment returns. The speed at which smaller unquoted and AiM growth companies are re-rated by the market is uncertain but we believe

Realisations in the six month period to 31 March 2008

		First investment date	Cost £'000	Proceeds £'000	Multiple return
Unquoted investments					
RLA Group	Trade sale	December 2002	1,437	2,293	3.7*
Boldon James	Trade sale	June 2005	562	1,713	3.1*
Hawksmere	Trade sale	December 2003	942	2,069	2.5*
Listed investments					
Oxford BioMedica	Market sale	April 2003	250	65	0.3
Totals			3,191	6,140	

* Includes interest received and loan note redemptions accounted for in prior periods.

In addition deferred proceeds of £174,000 were received on the sale of the unquoted investment in Domantis realised in a prior period.

Chairman's Statement

the market is cyclical and we wish to benefit, as best we can, from such swings whatever the circumstances at the time. There are, of course, risks on the downside but the Manager is experienced in tackling the impact of difficult economic conditions.

The long term performance of Baronsmead VCT 2 can be observed in both its absolute performance, typically reflected in the high dividends paid in recent years, as well as in the favourable relative performance. The Board believes this firm track record makes Baronsmead VCT 2 an attractive investment which should appeal to purchasing shareholders and their advisers and therefore support the development of an active secondary market for both buyers and sellers.

There are currently and will continue to be in the future, excellent opportunities to invest in companies with real potential to grow even in the current market conditions. The Manager remains focused on finding companies which match its criteria for quality. Accordingly the Board believes that the outlook for long term growth and dividend distribution remains strong.

Clive Parritt

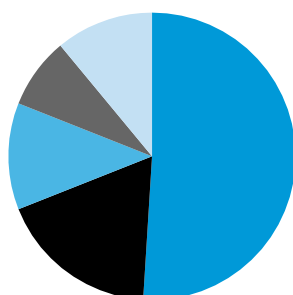
Chairman

13 May 2008

Investment Portfolio

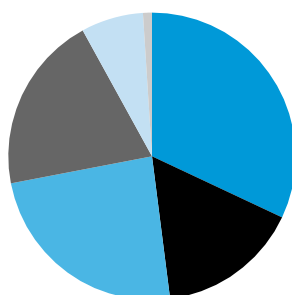
Investment Classification at 31 March 2008

By Sector



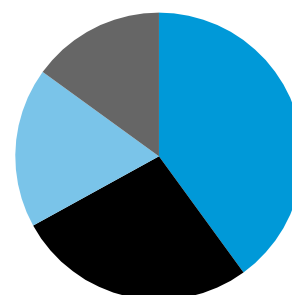
■ Business services	51%
■ IT support services	18%
■ Consumer	12%
■ Healthcare	11%
■ Media	8%

Total Assets



■ Unquoted – loan stock	32%
■ AiM	24%
■ Interest bearing	20%
■ Unquoted – ordinary and preference shares	16%
■ Net current assets	7%
■ Listed	1%

Time Investments Held



■ Less than 1 year	27%
■ Between 1 and 3 years	40%
■ Between 3 and 5 years	18%
■ Greater than 5 years	15%

Company	Sector	Book cost £'000	Valuation £'000	% of Net Assets
Unquoted				
Reed & Mackay	Business services	1,211	2,290	3.6
SLR Holdings	Business services	290	2,247	3.5
Independent Living Services	Healthcare	801	2,237	3.5
kidsunlimited	Business services	481	1,921	3.0
Scriptswitch	IT	1,167	1,796	2.8
Crucible Group	Business services	1,032	1,767	2.8
Kafévend	Consumer markets	1,247	1,734	2.7
CSC (World)	IT	1,607	1,607	2.5
Cable Com	IT	1,381	1,587	2.5
Carnell Contractors	Business services	1,499	1,499	2.4
Fisher Outdoor Leisure	Consumer markets	1,423	1,448	2.3
Nexus	Business services	1,368	1,368	2.2
Quantix	IT	1,194	1,335	2.1
Crew Clothing	Consumer markets	932	1,292	2.0
The Art Group	Media	1,576	1,242	2.0
Empire World Trade	Business services	1,297	1,061	1.7
Playforce	Business services	1,033	1,033	1.6
MLS	IT	781	856	1.3
Occam	Business services	465	716	1.1
Active Assistance	Healthcare	679	679	1.1
Green Issues	Media	497	593	0.9
Xention Discovery	Healthcare	278	278	0.4
Total unquoted		22,239	30,586	48.0
Listed				
Vectura	Healthcare	579	543	0.9
Ardana	Healthcare	481	63	0.1
Total listed		1,060	606	1.0
Traded on AiM				
Jelf Group	Business services	551	1,585	2.5
Staffline Recruitment Group	Business services	249	1,122	1.8
Murgitroyd Group	Business services	319	922	1.4
IDOX	IT	920	864	1.4
Begbies Traynor Group	Business services	283	836	1.3
Claimar Care Group	Healthcare	569	674	1.1
Concateno	Healthcare	396	525	0.8
InterQuest Group	Business services	310	433	0.7
Driver Group	Business services	438	432	0.7
Mount Engineering	Business services	385	407	0.6
Plastics Capital	Business services	473	402	0.6
Brulines Holdings	Business services	347	390	0.6

Investment Portfolio

Company	Sector	Book cost £'000	Valuation £'000	% of Net Assets
Traded on AiM (continued)				
Vero Software (formerly VI Group)	IT	500	384	0.6
Adventis Group	Media	281	384	0.6
Proactis Holdings	IT	400	372	0.6
Prologic	IT	310	310	0.5
Colliers CRE	Business services	470	274	0.4
Sanderson Group	IT	387	255	0.4
Maelor	Healthcare	246	246	0.4
Stagecoach Theatre Arts	Consumer markets	419	243	0.4
Research Now	Media	262	228	0.4
Huveaux	Media	666	227	0.4
Craneware	IT	179	223	0.4
Optimisa	Media	298	206	0.3
Cohort	Business services	179	202	0.3
Debts.co.uk	Consumer markets	263	198	0.3
Essentially Group	Media	255	197	0.3
Air Music & Media Group	Media	575	192	0.3
Kiotech International	Business services	200	183	0.3
WIN	IT	263	176	0.3
Quadnetics	Business services	296	168	0.3
Appian Technology	IT	302	157	0.2
Mission Marketing	Media	247	150	0.2
STM	Business services	140	147	0.2
Autoclenz Holdings	Consumer markets	400	147	0.2
Tasty	Consumer markets	240	143	0.2
FfastFill	IT	130	130	0.2
Tangent Communications	Business services	180	125	0.2
Xpertise Group	Business services	296	121	0.2
Conder Enviromental	Business services	607	106	0.2
EBTM	Consumer markets	244	103	0.2
Payzone (formerly Cardpoint)	Business services	109	96	0.2
ATA Group	Business services	355	94	0.1
Top Ten	Consumer markets	759	80	0.1
Character Group	Media	82	79	0.1
Interactive Prospect Targeting	Media	138	75	0.1
Brainjuicer	Media	50	67	0.1
Fishworks	Business services	174	67	0.1
Business Direct Group	Business services	444	66	0.1
Cobra Biomanufacturing	Healthcare	210	53	0.1
AorTech International	Healthcare	285	53	0.1
The Real Good Food Company	Consumer markets	620	46	0.1
SSP Holdings (formerly Sirius Fin. Sol.)	IT	36	46	0.1
eg Solutions	IT	375	44	0.1
Universe Group	Business services	195	39	0.1
Landround	Business services	467	30	–
INVU	IT	35	25	–
MKM Group	Business services	284	18	–
Cantono (formerly Hamsard Group)	IT	375	15	–
Loanmakers (formerly Debtmatters Group)	Consumer markets	167	10	–
Zoo Digital Group	IT	438	10	–
Highams Systems Services	IT	197	9	–
Electric Word	Media	7	7	–
Independent Media Distribution	IT	6	6	–
Capcon Holdings	Business services	137	5	–
Micap	Healthcare	375	3	–
Charterhouse Communications	Media	355	–	–
Total AiM		21,150	15,632	24.5
PLUS				
Chemistry Communications	Business services	500	66	0.1
Total PLUS		500	66	0.1
Interest bearing securities				
F&C Money Market OEIC		6,868	6,868	10.8
BlackRock Institutional Liquidity Fund		5,563	5,563	8.7
Total interest bearing securities		12,431	12,431	19.5
Total investments		57,380	59,321	93.1
Net current assets less creditors falling due after one year			4,392	6.9
Net assets			63,713	100.0

Independent Review Report to Baronsmead VCT 2 plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2008 which comprises the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2008 is not prepared, in all material respects, in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Edinburgh

13 May 2008

Unaudited Income Statement

for the six months to 31 March 2008

	Ordinary shares		
	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Unrealised losses on investments	–	(6,456)	(6,456)
Realised gains on investments	–	302	302
Income	1,898	–	1,898
Investment management fee	(193)	(580)	(773)
Other expenses	(163)	–	(163)
Profit/(loss) on ordinary activities before taxation	1,542	(6,734)	(5,192)
Taxation on ordinary activities	(405)	405	–
Profit/(loss) on ordinary activities after taxation	1,137	(6,329)	(5,192)
Return per ordinary share:			
– Basic	1.84p	(10.25)p	(8.41)p

Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months to 31 March 2008

	2008 Total £'000
Opening shareholders' funds at 30 September 2007	68,745
Loss for the period	(5,192)
Issue of shares	1,786
Expenses of share issue	(60)
Purchase of shares for treasury	(1,566)
Closing shareholders' funds at 31 March 2008	63,713

Notes

- The unaudited interim results which cover the six months to 31 March 2008 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the period ended 30 September 2007.
- Return per share is based on a weighted average of 61,719,450 ordinary shares in issue (30 September 2007 – 61,762,131 ordinary shares, 30 September 2006 – 40,627,493 ordinary shares and 22,247,650 C shares).
- Earnings for the six months to 31 March 2008 should not be taken as a guide to the results of the full financial year to 30 September 2008.
- During the six months to 31 March 2008 the Company issued 1,539,377 ordinary shares pursuant to an offer for subscription at an offer price of 116p per share which raised £1.79 million, before costs. During this period the Company purchased 1,600,000 ordinary shares to be held in Treasury at a cost of £1,566,000. At 31 March 2008 the Company holds 3,820,000 ordinary shares in Treasury. There were 61,216,015 ordinary shares in issue at 31 March 2008 (30 September 2007 – 61,276,638 ordinary shares, 30 September 2006 – 40,241,427 ordinary shares and 22,247,650 C shares).

Audited Income Statement

for the eighteen month period ended 30 September 2007

	Total		
	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Unrealised gains on investments	–	6,288	6,288
Realised gains on investments	–	1,820	1,820
Income	3,474	–	3,474
Investment management fee	(624)	(2,380)	(3,004)
Other expenses	(624)	–	(624)
Profit on ordinary activities before taxation	2,226	5,728	7,954
Taxation on ordinary activities	(459)	459	–
Profit on ordinary activities after taxation	1,767	6,187	7,954
Return per ordinary share:			
– Basic	2.86p	10.02p	12.88p

Audited Reconciliation of Movements in Shareholders' Funds

for the eighteen month period ended 30 September 2007

	2007 Ordinary shares £'000	2007 C shares £'000	2007 Total £'000
Opening shareholders' funds at 31 March 2006	46,897	22,677	69,574
Conversion of C shares	24,760	(24,760)	–
Profit for the period	5,513	2,441	7,954
Purchase of shares for Treasury	(1,159)	–	(1,159)
Expenses of share issue/conversion of share premium	(23)	(2)	(25)
Dividends paid	(7,243)	(356)	(7,599)
Closing shareholders' funds at 30 September 2007	68,745	–	68,745

Notes (continued)

- The interim dividend of 3.0p per ordinary share (1.8p revenue and 1.2p capital) will be paid on 20 June 2008 to shareholders on the register on 23 May 2008.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the period to 30 September 2007, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 30 September 2007 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Interim Report have been mailed to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

Unaudited Income Statement

for the six months to 30 September 2006

	Ordinary Shares			C Shares			Total		
	2006	2006	2006	2006	2006	2006	2006	2006	2006
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains on investments	–	–	–	–	1,229	1,229	–	1,229	1,229
Realised gains on investments	–	413	413	–	42	42	–	455	455
Income	621	–	621	433	–	433	1,054	–	1,054
Investment management fee	(138)	(413)	(551)	(70)	(211)	(281)	(208)	(624)	(832)
Other expenses	(106)	–	(106)	(127)	–	(127)	(233)	–	(233)
Profit on ordinary activities before taxation	377	–	377	236	1,060	1,296	613	1,060	1,673
Taxation on ordinary activities	(66)	66	–	(54)	54	–	(120)	120	–
Profit on ordinary activities after taxation	311	66	377	182	1,114	1,296	493	1,180	1,673
Return per ordinary share/C share:	0.77p	0.16p	0.93p	0.81p	5.01p	5.82p	0.78p	1.88p	2.66p

Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months to 30 September 2006

	2006 Ordinary Shares £'000	2006 C Shares £'000	2006 Total £'000
Opening shareholders' funds at 31 March 2006	46,897	22,677	69,574
Profit for the period	377	1,296	1,673
Decrease in share capital in issue	(696)	(2)	(698)
Closing shareholders' funds at 30 September 2006	46,578	23,971	70,549

Principal Risks and Uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading Principal risks, risk management and regulatory environment within the Business Review in the Company's Report and Accounts for the period ended 30 September 2007. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Related Parties

ISIS EP LLP ('the Manager') manages the investments for the Company. The Manager also provides or procures the provision of secretarial, administrative and custodian services to the Company. Under the management agreement, the Manager receives a fee of 2.0 per cent per annum of the net assets of the Company. This is described in more detail under the heading Management, within the Report of the Directors in the Company's Report and Accounts for the period ended 30 September 2007. During the period the Company has incurred management fees of £773,000 and secretarial fees of £66,000 payable to the Manager.

Unaudited Balance Sheet

	As at 31 March 2008	As at 30 September 2007‡	As at 30 September 2006		
	Total £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets					
Investments					
Unquoted investments	30,586	30,739	17,949	7,821	25,770
Traded on AiM	15,632	18,433	14,973	4,967	19,940
Quoted on PLUS	66	65	125	–	125
Listed investments	606	1,274	513	–	513
Listed interest bearing securities	12,431	16,929	11,715	10,194	21,909
	59,321	67,440	45,275	22,982	68,257
Current assets					
Debtors	944	690	411	131	542
Cash at bank and on deposit	4,515	1,167	1,225	1,240	2,465
	5,459	1,857	1,636	1,371	3,007
Creditors: amounts falling due within one year	(1,041)	(505)	(333)	(382)	(715)
Net current assets	4,418	1,352	1,303	989	2,292
Total assets less current liabilities	63,739	68,792	46,578	23,971	70,549
Creditors (amounts falling due after more than one year)	(26)	(47)	–	–	–
Net assets	63,713	68,745	46,578	23,971	70,549
Capital and reserves					
Called-up share capital	6,504	6,350	4,201	11,124	15,325
Share premium account	5,136	3,563	3,572	10,031	13,603
Capital redemption reserve	9,254	9,254	279	–	279
Revaluation reserve	1,941	11,240	6,869	3,137	10,006
Profit and loss account	40,878	38,338	31,657	(321)	31,336
Equity shareholders' funds	63,713	68,745	46,578	23,971	70,549
‡These figures are audited					

	As at 31 March 2008	As at 30 September 2007	As at 30 September 2006	
	Ordinary Shares £'000	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000
Net asset value per share	104.08p	112.19p	115.74p	107.75p
Number of shares in issue at balance sheet date	61,216,015	61,276,638	40,241,427	22,247,650
Treasury net asset value per share	103.52p	111.80p	115.17p	–
Number of ordinary shares in issue	61,216,015	61,276,638	40,241,427	–
Number of ordinary shares held in Treasury	3,820,000	2,220,000	1,770,000	–
Number of listed ordinary shares	65,036,015	63,496,638	42,011,427	–

The Board is permitted by shareholders to sell Treasury shares at a discount to the prevailing NAV, however ordinary shares will not be re-issued out of Treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. Treasury shares are therefore valued at the lower of the prevailing NAV or middle market price.

Summarised Unaudited Statement of Cash Flows

	Six months to 31 March 2008	Eighteen months to 30 September 2007‡	Six months to 30 September 2006		
	Total £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash inflow/(outflow) from operating activities	758	(1,383)	(927)	(48)	(975)
Tax received/(paid)	–	–	29	(29)	–
Capital expenditure and financial investment	2,426	6,501	(345)	(355)	(700)
Equity dividends recovered/(paid)	3	(7,603)	–	–	–
Net cash inflow/(outflow) before financing	3,187	(2,485)	(1,243)	(432)	(1,675)
Financing	161	(1,310)	(822)	–	(822)
Increase/(decrease) in cash	3,348	(3,795)	(2,065)	(432)	(2,497)
Reconciliation of net cash flow to movement in net cash					
Increase/(decrease) in cash	3,348	(3,795)	(2,065)	(432)	(2,497)
Net cash at beginning of period	1,167	4,962	3,290	1,672	4,962
Net cash at end of period	4,515	1,167	1,225	1,240	2,465
Reconciliation of operating profit/(loss) before taxation to net cash flow from operating activities					
(Loss)/profit on operating activities before taxation	(5,192)	7,954	377	1,296	1,673
Realised gains on investments	(302)	(1,820)	(413)	(42)	(455)
Unrealised losses/(gains) on investments	6,456	(6,288)	–	(1,229)	(1,229)
(Increase)/decrease in debtors	(175)	(506)	(211)	(59)	(270)
(Decrease)/increase in creditors	(29)	(723)	(680)	(14)	(694)
Net cash inflow/(outflow) from operating activities	758	(1,383)	(927)	(48)	(975)

‡ These figures are audited

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement 'Half-yearly financial reports' issued by the UK Accounting Standards Board;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- the Statement of Principal Risks and Uncertainties on page 12 is a fair review of the information required by DTR 4.2. 7R; and
- the financial statements include a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board,
F&C Asset Management plc
Secretary
13 May 2008

Shareholder Information

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP, queries regarding share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

www.computershare.com/investor

Shareholder helpline

The shareholder helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will let you do the following things:

Automated functions

- confirm the latest share price
- confirm your current share holding balance
- confirm payment history
- order a change of address, dividend bank mandate or stock transfer form

e-mail: web.queries@computershare.co.uk

Tel: 0870 703 0137 (Calls charged at national rate).



Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www.computershare.com.

Please note that to access this facility investors will need to quote the reference number shown on their share certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation, Please see

www.computershare.com/investor for further information.

Information on underlying companies, asset allocations, dividend policies, the investment process, DRIP mechanism, share price movements, the share price discount and selling shares:

ISIS EP LLP (Investment Manager)

www.isisep.com

Contains details of the team and some case studies of investments.

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Tel: Michael Probin 020 7506 5796; Paul Forster 020 7506 5652; Margaret Barff 020 7506 5630.



Shareholder Information

Share Price

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

Trading Shares

The Company's ordinary shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. The market makers for Baronsmead VCT2 plc are:

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

Financial Calendar

August 2008	Quarter end 30 June 2008 VCT factsheet sent to shareholders
November 2008	Final results for year to 30 September 2008 announced and annual report and accounts sent to shareholders
December 2008	Eleventh Annual General Meeting

Corporate Information

Directors

Clive Anthony Parritt (Chairman) *
Godfrey Frank Jillings ‡
Gillian Nott OBE §
Nicholas George Lawrence Timpson †

Secretary

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

Registered Office and Investment Manager

ISIS EP LLP
100 Wood Street
London EC2V 7AN

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registered Number

03504214

* Chairman of the Audit Committee

† Senior Independent Director

‡ Chairman of Nomination Committee

§ Chairman of Management Engagement and Remuneration Committee

Registrars and Transfer Office

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PO Box 82
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Bridgwater Road
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Tel: 0870 703 0137

Bankers

JPMorgan Chase Bank
125 London Wall
London EC2Y 5AJ

Stockbrokers

Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors

KPMG Audit Plc
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

Additional Information

The information provided in this report has been produced for shareholders to be informed of the activities of the Company during the period it covers. ISIS EP LLP does not give investment advice and the naming of companies in this report is not a recommendation to deal in them.

Baronsmead VCT 2 plc is managed by ISIS EP LLP which is Authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stock markets and currency movements may cause the value of investments and the income from those investments 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.