

Baronsmead VCT 2 plc



2003

Interim report for the
six months ended
30 September 2003



Investment Objective

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

Investment Policy

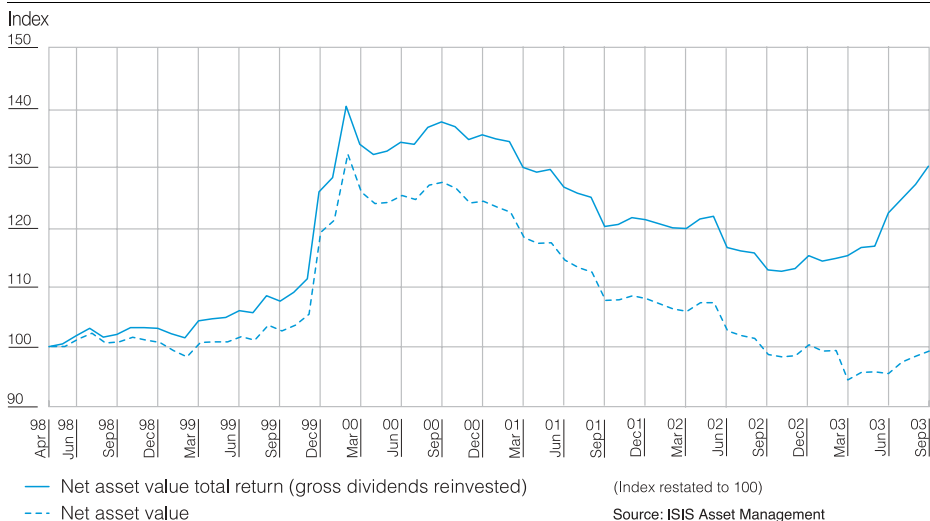
- To invest primarily in a diverse portfolio of established and profitable UK unquoted companies which are seeking to raise expansion capital or are the subject of a management buy out or buy in.
- Investments include companies raising new share capital on the Alternative Investment Market.
- Selective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

Financial Highlights

Net asset value increased by 12.4 per cent before distributions
 Cash returns to shareholders totalled 5.9p per share, including 5.3p capital, in the period
 Interim revenue dividend of 0.6p per share declared
 Investments in period increased to 51 companies
 Total return since launch April 1998 – 30.2 per cent

Baronsmead VCT 2 plc

Net asset value and net asset value total return



Performance summary

	30 September 2003	31 March 2003	% Change
Ordinary shares – capital values			
Net asset value per share (after dividends)	94.90p	89.65p	5.9
Share price (mid market)	84.00p	80.00p	5.0
Discount	(11.5)	(10.8)	–
Net asset value total return in period*	12.8	(3.9)	–
Net asset value total return since launch*	30.2	15.5	–
Total assets (net of issue expenses)	£38.9m	£36.7m	6.0
	Six months ended 30 September 2003		Six months ended 30 September 2002
Dividend			
Revenue dividends per ordinary share	0.6p		1.00p
Capital dividends per ordinary share	5.3p		–

*Net asset value total return assuming gross dividends reinvested

Chairman's Statement

The last six months has been a period of high activity within the portfolio with ten new investments and four realisations. NAV per share (before dividends declared) increased by 12.4 per cent. This uplift came predominantly from the profits achieved from these successful realisations and an increase in the market value of the Aim portfolio.

Achieved results | During the six months to 30 September 2003 the net asset value per share increased by 12.4 per cent from 89.7p to 100.8p. This reduces to 5.9 per cent having returned 5.9p to shareholders by way of the proposed interim dividend of 1.2p and the July 2003 distribution of 4.7p per share.

Since launch Baronsmead VCT 2 has generated a total return (dividends paid plus change in NAV) of 30.2 per cent which compares to a 16.7 per cent reduction in the FTSE All-Share Index over the same period. This differential is further increased if the VCT tax reliefs are taken into account.

The Board has declared an interim dividend of 1.2p (including a further capital distribution of 0.6p) per share (1.0p in 2002) which will be paid on 12 December 2003 to shareholders on the register at close of business on 14 November 2003. Total dividends of 26.3p per share have been paid since launch in April 1998.

Investment environment | UK economic conditions have become more settled and we believe they are likely to create a better environment within which both unquoted and Aim portfolio companies can prosper. There also appears to be greater momentum behind the buying and selling of investee companies, which has been evident for Baronsmead VCT 2 in terms of new investment and realisations from the portfolio.

The enlarged team at ISIS Equity Partners adopts a sector-based approach from its three offices in London, Birmingham and Manchester. The number of investment opportunities has increased sharply with the new but experienced team in the North-West and there has been a higher level of conversion into new investments. In

previous reports to shareholders, I have shared the need to meet our 70 per cent test, for VCT purposes, without sacrificing quality standards and I am pleased to report that this strategy appears to be working well.

Portfolio | We set out to create a portfolio of 50 companies at this time last year and this has now been achieved. Ten new investments were made in the six-month period to 30 September 2003 totalling £5.0m including future commitments. In addition to the four Aim and one technology investment reported in the quarterly fact sheet to 30 June 2003, the following investments were made:

- **Americana – Branded fashion clothing**

Based in Manchester, Americana designs and retails clothing aimed at the youth market under the brand names of 'Bench' and 'Hooch'. Baronsmead VCT 2 provided £698,000 of the £6.4m provided to finance a management buy-out.

- **Ardana Biosciences – Speciality pharmaceuticals**

Based in Cambridge, Ardana is an early stage drug discovery company that specialises in the reproductive health market. £350,000 was invested as part of the £20m raised for this third round financing.

- **ASSA Training and Learning – Provision of work place training**

Based in Washington, ASSA is a training developer and provider specialising in the marketing and delivery of public sector funded vocational training to the automotive and manufacturing sectors. £1,028,000 was invested/committed as part of the £3m provided to finance a management buy-out.

- **Communicandum – Provision of language services**

Based in London, Communicandum is a leading provider of interpretation and language services to UK public sector organisations. £785,000 was invested as part of the £7.2m provided to finance a management buy-out.

Chairman's Statement

● **Martin Audio – Suppliers of professional speaker systems**

Based in High Wycombe, Martin Audio designs, assembles and markets high performance speaker systems for use in the concert and public entertainment markets, in the UK and overseas. £1,045,000 was invested/committed as part of the £3.05m provided to finance a management buy-out.

● **i-documentsystems – provider of document management systems**

Based in London, i-documents provides document and management solutions to local authorities. Baronsmead VCT 2 invested £400,000 originally in 2002 and provided a further £200,000 as part of the £1.0m raised to acquire Mandoforms, a designer and supplier of electronic forms.

Since the period end, one new unquoted and further investment into three existing Aim investees has taken place.

Realisations | In the six-month period to 30 September 2003, we sold the following four investments.

	First investment date	Cost £'000	Proceeds £'000	Multiple return
Thomas Sanderson	2001	667	1,689	2.53
Blue 8	2001	321	647	2.02
AIMS Group	2002	1,000	1,924	1.92
R&R	2002	527	479	0.91

The sale of the first three companies was described in the fact sheet circulated to shareholders for the quarter ended on 30 June 2003. R&R, which had been held for 16 months, was sold at a small loss to THB Group plc. The original investment was to finance their new software activity into SME outsourcing but this failed to secure sufficient new clients to succeed as planned.

All four companies were sold to trade buyers who were seeking a tight strategic fit and scope for synergies. For all but R&R, the level of annual returns was in excess of 40 per cent. In part this high rate of return was due to the relatively short

holding period for each investment and such returns cannot be expected across the portfolio as a whole.

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 are aware that electronic means of communication is becoming more popular and so hope to add relevant reports and presentations to the ISIS and Baronsmead web sites. This will include commentary and illustrations as to how investment in VCTs can be versatile in meeting different tax and financial planning needs for shareholders.

The high level of cash returned to shareholders which is, of course, available for reinvestment, reinforces our belief that VCTs like Baronsmead VCT 2 can be used successfully as part of pension planning by reinvesting dividends (tax effectively) prior to retirement and taking income subsequently.

In the six months to 30 September 2003, 607,578 new shares were issued at an average price of 89p under the dividend reinvestment scheme. The Board has decided that, on this occasion, it will not be making a top-up offer to shareholders. The three and five year qualifying holding periods, for subscribers after 6 April 2000 and in Spring 1998 expired in April 2003 and since then 500,000 shares have been bought back at a cost of £417,000.

Outlook | The pipeline of suitable opportunities remains strong at a moment when we believe there is a degree of stability for long term investment. We have a well-diversified portfolio and our strategy continues to be both protecting and gradually growing the value of net assets, while paying a good rate of return from dividends and realisations arising from the portfolio.

Clive Parritt
Chairman

6 November 2003

Profit and Loss Account

For the Six Months to 30 September 2003

	Six months to 30 September 2003		
	Revenue	Capital	Total
	£'000	£'000	£'000
Gains/(Losses) on investments	–	855	855
Income	566	–	566
Investment management fee	(94)	(281)	(375)
Other expenses	(129)	–	(129)
Profit on ordinary activities before taxation	343	574	917
Tax on ordinary activities	(64)	64	–
Profit on ordinary activities after taxation	279	638	917
Dividends in respect of equity shares	(246)	(2,166)	(2,412)
Retained profits/(losses) transferred to/(from) reserves	33	(1,528)	(1,495)
Earnings per ordinary 10p share:			
Basic	0.68p	1.55p	2.23p

Statement of Total Recognised Gains and Losses

For the six months to 30 September 2003

	Six months to 30 September 2003		
	Revenue	Capital	Total
	£'000	£'000	£'000
Profit/(loss) on ordinary activities after taxation	279	638	917
Unrealised gain/(loss) on revaluation of investments	–	3,614	3,614
Total recognised gain/(loss) during the period	279	4,252	4,531
Total recognised gain/(loss) per ordinary share	0.68p	10.34p	11.02p

Note of Historical Cost Profits and Losses

For the six months to 30 September 2003

	2003
	£'000
Profit on ordinary activities before taxation	917
Realisation of revaluation gains/(losses) of previous years	1,349
Historical cost profit on ordinary activities before taxation	2,266
Historical cost loss for the period retained after taxation and dividends	(146)

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

Six months to 30 September 2002

Revenue	Capital As restated	Total As restated
£'000	£'000	£'000
–	(6)	(6)
878	–	878
(99)	(298)	(397)
(150)	–	(150)
629	(304)	325
(146)	92	(54)
483	(212)	271
(408)	–	(408)
75	(212)	(137)
1.18p	(0.52p)	0.66p

Year to 31 March 2003

Revenue	Capital	Total
£'000	£'000	£'000
–	(267)	(267)
1,809	–	1,809
(193)	(580)	(773)
(295)	–	(295)
1,321	(847)	474
(349)	187	(162)
972	(660)	312
(858)	(2,004)	(2,862)
114	(2,664)	(2,550)
2.37p	(1.61p)	0.76p

Six months to 30 September 2002

Revenue	Capital As restated	Total As restated
£'000	£'000	£'000
483	(212)	271
–	(2,679)	(2,679)
483	(2,891)	(2,408)
1.18p	(7.06p)	(5.88p)

Year to 31 March 2003

Revenue	Capital	Total
£'000	£'000	£'000
972	(660)	312
–	(1,926)	(1,926)
972	(2,586)	(1,614)
2.37p	(6.31p)	(3.94p)

2002
As restated
£'000

325
(71)
254
(208)

2003
£'000

474
303
777
(2,247)

Unaudited Balance Sheet

	As at 30 September 2003 £'000	As at 30 September 2002 re-stated £'000	As at 31 March 2003 £'000
Fixed assets			
Investments			
Listed investments	560	364	343
Quoted on the Alternative Investment Market	10,625	5,785	6,625
Quoted on OFEX	299	147	310
Unquoted investments	13,200	11,308	12,212
Listed fixed interest investments	5,039	20,557	7,155
	29,723	38,161	26,645
Current assets			
Debtors	448	1,068	533
Cash at bank and on deposit	9,661	81	9,889
	10,109	1,149	10,422
Creditors: amounts falling due within one year	(933)	(916)	(416)
Net current assets	9,176	233	10,006
Total assets less current liabilities	38,899	38,394	36,651
Capital and reserves			
Called-up share capital	4,099	4,098	4,089
Share premium account	543	39,979	57
Other reserves –			
Revaluation reserve	(1,207)	(3,851)	(3,472)
Capital redemption reserve	66	–	16
Profit and loss account	35,398	(1,832)	35,961
Equity shareholders' funds	38,899	38,394	36,651
Net asset value per share:			
Ordinary	94.90p	93.69p	89.65p
Number of shares in issue at balance sheet date	40,989,300	40,981,575	40,881,722

Notes

- 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 2003. Unquoted investments have been valued in accordance with BVCA guidelines. Quoted investments are stated at middle market prices in accordance with Generally Accepted Accounting Practice.
- Earnings for the first six months should not be taken as a guide to the results of the full year.
- Return per ordinary share is based on a weighted average of 41,101,447 ordinary shares in issue (31 March 2003 – 40,961,609, 30 September 2002 – 40,959,970).
- During the six months ended 30 September 2003 the Company issued 607,578 ordinary shares and bought for cancellation 500,000 ordinary shares at a cost of £417,000. There were 40,989,300 ordinary shares in issue at 30 September 2003 (31 March 2003 – 40,881,722, 30 September 2002 – 40,981,575).

Summarised Unaudited Statement of Cash Flows

	Six months to 30 September 2003	Six months to 30 September 2002 restated £'000	Year to 31 March 2003 £'000
Net cash inflow from operating activities	137	371	1,201
Taxation	–	–	(217)
Capital expenditure and financial investment	1,391	(2,374)	9,747
Equity dividends paid	(1,920)	(614)	(3,477)
Net cash (outflow)/inflow before financing	(392)	(2,617)	7,254
Financing	164	(54)	(117)
(Decrease)/increase in cash	(228)	(2,671)	7,137
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash	(228)	(2,671)	7,137
Net cash at 1 April	9,889	2,752	2,752
Net cash at 30 September/31 March	9,661	81	9,889
Reconciliation of profit on ordinary activities to net cash flow from operating activities			
Profit on ordinary activities before taxation	917	325	474
(Profit)/loss on realisation of investments	(855)	6	267
Changes in working capital and other non cash items	75	40	460
Net cash inflow from operating activities	137	371	1,201

- The interim dividend of 1.2p per ordinary share will be paid on 12 December 2003 to shareholders on the register on 14 November 2003.
- 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 2003, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2003 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- 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.

Investment Portfolio

Company	Sector	Cost £'000	Valuation £'000	% of Total Assets less Current Liabilities
Unquoted				
Fat Face	Consumer Markets	500	1,569	4.03
Job Opportunities	Media	952	1,095	2.81
Brownsword	Business Services	1,081	1,081	2.78
Martin Audio	Business Services	1,045	1,045	2.69
Assa	Business Services	1,028	1,028	2.64
Kondor	Consumer Markets	1,000	900	2.31
RLA Media	Media	886	886	2.28
Communicandum	Business Services	785	785	2.02
kidsunlimited	Business Services	481	768	1.97
Vectura	Healthcare	706	706	1.82
Americana	Consumer Markets	698	698	1.79
BodyCare International	Consumer Markets	1,000	667	1.72
Fretwell Downing	IT	540	506	1.30
Searchspace	IT	500	500	1.29
Staffline	Business Services	814	366	0.94
Ardana	Healthcare	350	350	0.90
Oxxon Pharmaceuticals	Healthcare	250	250	0.64
422	Media	1,322	–	–
Conclusive	IT	457	–	–
Imerge	IT	500	–	–
Total unquoted		14,895	13,200	33.93
Quoted on AiM				
Huveaux	Media	657	1,539	3.96
Inter Link Foods	Consumer Markets	629	1,285	3.30
Landround	Business Services	566	885	2.28
i-documentsystems	IT	600	580	1.49
Medal Entertainment & Media	Media	371	566	1.46
Murgitroyd Group	Business Services	500	558	1.44
Premier Direct	Consumer Markets	202	478	1.23
ATA Group	Business Services	355	466	1.20
Fitzhardinge	Business Services	470	458	1.18
Micap	Healthcare	375	436	1.12
Stagecoach Theatre Arts	Consumer Markets	418	427	1.10
Conder Environmental	Business Services	340	348	0.89
VI Group	IT	500	337	0.87
Air Music & Media	Media	204	297	0.76
NeuTec Pharma	Healthcare	317	290	0.75
Cobra Biomanufacturing	Healthcare	210	278	0.71
Biofocus	Healthcare	680	255	0.66
Universe Group	Business Services	195	235	0.60
Cardpoint	Business Services	113	169	0.43
Giardino Group	Consumer Markets	288	160	0.41
Xpertise Group	Business Services	296	148	0.38
Blooms of Bressingham	Consumer Markets	320	140	0.36
Capcon Holdings	Business Services	137	102	0.26
Charterhouse Communications	Media	355	61	0.16
NMT Group	Healthcare	351	50	0.13
Top Ten	Consumer Markets	282	48	0.12
Highams Systems Services	IT	197	29	0.07
Total AiM		9,928	10,625	27.32
OFEX				
Chemistry Communications	Business Services	500	299	0.77
Total OFEX		500	299	0.77
Listed				
SDL	IT	270	448	1.15
AorTech International	Healthcare	285	24	0.06
Sirius Financial Solutions	Business Services	150	88	0.23
Total listed		705	560	1.44
Fixed interest securities				
		5,016	5,039	12.95
Total investments		31,044	29,723	76.41
Net current assets			9,176	23.59
Total assets			38,899	100.00

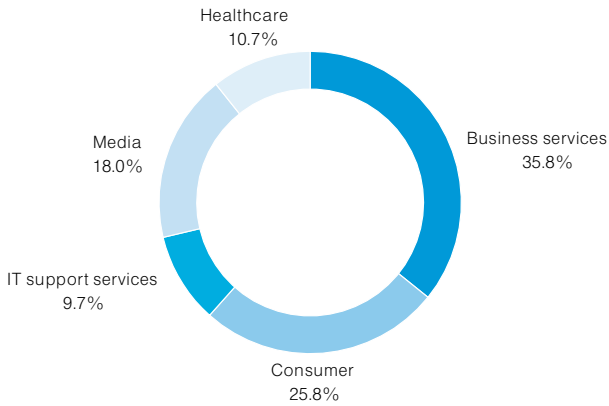
Investment Classification

Portfolio Diversified by Sector . . .

Company Investments

(excluding fixed interest portfolio)

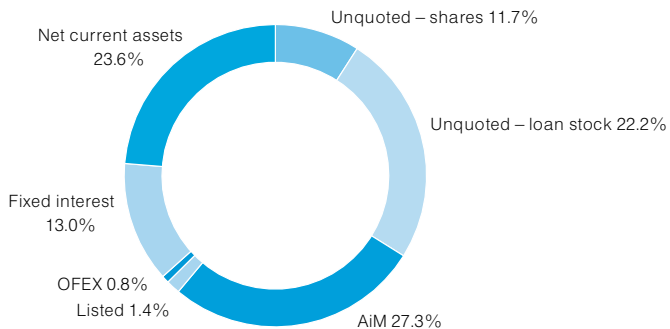
Sector Analysis by value as at 30 September 2003



. . . and by Asset Classification

Total Assets

Market Analysis by value as at 30 September 2003



Top Ten Holdings

Company

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.

Huveaux, London (Investment made March 2003)

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

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.

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.

Brownsword, Manchester (Investment made December 2002)

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

Martin Audio, High Wycombe (Investment made August 2003)

Martin Audio designs, assembles and markets high performance speaker systems for use in the concert and public entertainment markets, in the UK and overseas. £1,045,000 was invested/committed as part of the £3.05 million provided to finance a management buy-out.

Assa, Washington (Investment made September 2003)

Assa is a training developer and provider specialising in the marketing and delivery of public sector funded vocational training to the automotive and manufacturing sectors. £1,028,000 was invested/committed as part of the £3.0 million provided to finance a management buy-out.

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.

RLA Media, Bournemouth (Investment made December 2002)

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

Landround plc, Chester (Investment made July 1999)

Landround specialises in travel-based sales promotion assisting a number of major companies to promote their products and services. The company joined AIM in August 1997.

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 2003 which comprises the Profit and Loss Account, 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 2003.

PKF
Chartered accountants
London, UK

6 November 2003

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in December. Final dividends are ordinarily 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, Capita Registrars, 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 the Company's Investor Relations Manager, Michael Probin.

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, Capita Registrars, under the signature of the registered holder.

Financial Calendar

May 2004	Announcement of annual results for the year ended 31 March 2004
May 2004	Posting of annual report for the year ended 31 March 2004
June 2004	Annual General Meeting
November 2004	Announcement of interim results for the six months ended 30 September 2004

Enquiries

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

Telephone: 020 7506 1651*

Fax: 020 7601 1787

e-mail: michael.probin@isisam.com

Website: www.isisam.com/privateinvestors.asp (then click Venture Capital Trusts)

*(Telephone calls may be recorded)

Baronsmead VCT 2 plc is managed by ISIS Equity Partners plc a wholly owned subsidiary of ISIS Asset Management plc which is Authorised and 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

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80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Managers

ISIS Equity Partners plc
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London EC2V 7AN

VCT Status Adviser

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1 Embankment Place
London WC2N 6RH

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Woodsome Park
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Huddersfield HD8 0LA

Brokers

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

Auditors

PKF
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Hatton Garden
London EC1N 8JA

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

ISIS Equity Partners plc – Investment Managers

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

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