

Baronsmead VCT 2 plc

Investing in Private Equity generating tax-free dividends

2007

Interim report for the
twelve months ended
31 March 2007



Investment Objective

Baronsmead VCT 2 is a tax efficient listed company which aims to achieve long-term capital growth and generate consistent 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 AiM.
- Selective investments in companies which demonstrate their ability to transform and adapt their activities through the use of technology innovation.

Dividend policy

The Board seeks to sustain annual dividends at an average of 4.5p per ordinary share, whilst also maintaining a net asset value of at least 100p per ordinary share. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations 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).

Secondary market in the shares of Baronsmead VCT 2

As a fully listed public company, shares in Baronsmead VCT 2 can be freely traded via the Company's market makers in the normal way. 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.

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 and the accompanying form of proxy 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

+7.5%

NAV per ordinary share increased by 7.5 per cent to 123.27p before deduction of dividends. After interim dividends totalling 10p the NAV was 113.27p.

6.4p

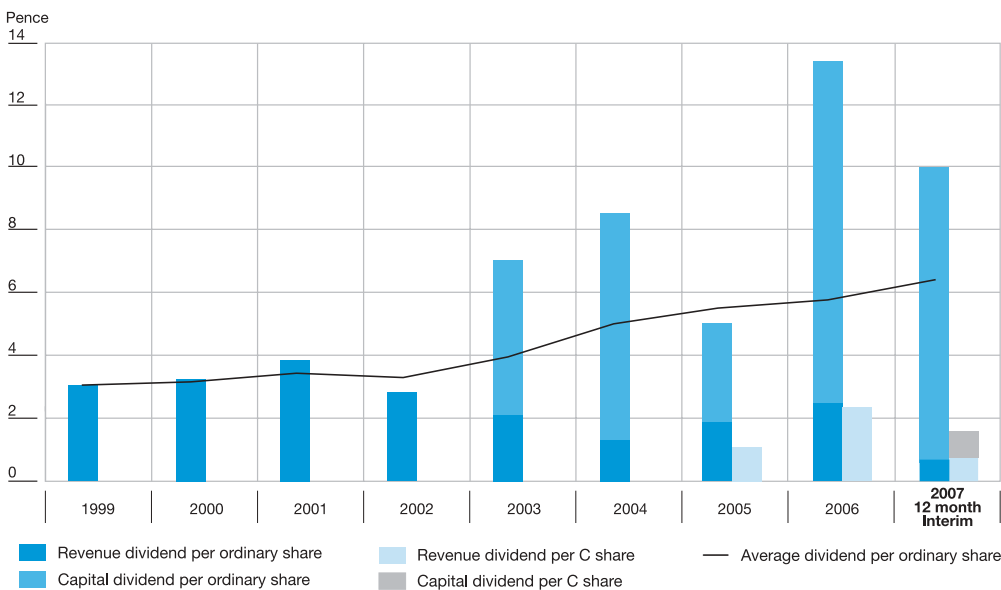
Average annual tax-free dividend is now 6.4p per ordinary share since launch (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer)

+105.1%

Total return to ordinary shareholders since launch in 1998, equivalent to an annualised total return of 8.3 per cent before 20 per cent income tax relief (on subscription, at launch) and 10.4 per cent afterwards.

C shares converted into ordinary shares on 24 January 2007 using a calculation date of 31 December 2006 at a rate of 9,657 new ordinary shares for every 10,000 C shares.

Dividend history since launch



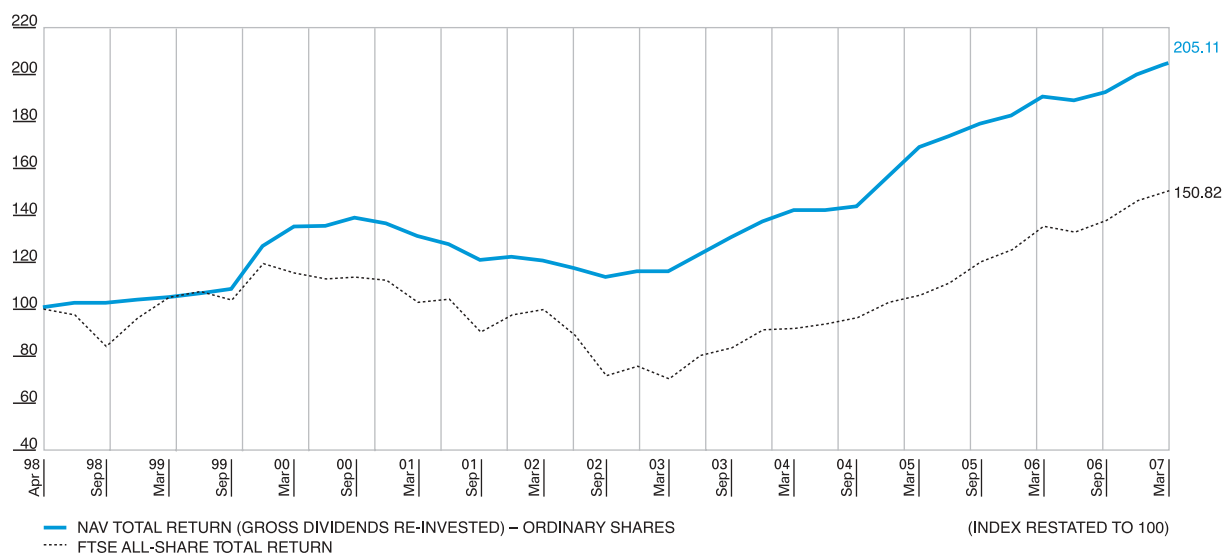
Ordinary shares launched in April 1998
C shares launched in October 2004 and converted in January 2007

Source: F&C Asset Management plc

Financial Highlights

Baronsmead VCT 2 plc

NAV Total Return (based on bid market price) of Ordinary Shares since launch against the FTSE All-Share Index Total Return



Source: F&C Asset Management plc

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

Cash Returned to Shareholders

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

Year subscribed	Net asset value total return %	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	105.11	100	20.0	80.0	57.4	8.0	11.8
1999 (May) – Ordinary	95.30	102	20.4	81.6	53.9	8.3	12.2
2000 (February) – Ordinary	45.36	137	27.4	109.6	50.7	6.6	9.8
2000 (March) – Ordinary	52.36	130	26.0	104.0	50.7	7.0	10.3
2004 (October) – C	26.08	100	40.0	60.0	9.7‡	3.9	5.8

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 5p capital dividend paid post conversion, adjusted by the rate at which C shares were converted to ordinary shares (0.9657).

Chairman's Statement

The conversion of the C shares in January 2007 increased the total number of ordinary shares in issue to approximately 61.6 million. Despite paying dividends totalling £5.5 million over the last 12 months, Baronsmead VCT 2 remains the largest VCT with a £69.7 million Net Asset Value at 31 March 2007 and over 3,400 ordinary shareholders.

Since launch, tax-free dividends paid to ordinary shareholders have averaged 6.4p (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer).

Results

In the twelve months to 31 March 2007, the Net Asset Value (NAV) per ordinary share increased by 7.5 per cent to 123.27p before payment of the two interim dividends totalling 10p per ordinary share. The second interim dividend of 5p per ordinary share was paid on 30 March 2007 following a series of profitable realisations, notably Americana and Domantis. Both were sold at significant uplifts over cost.

In the nine months to the conversion date of 31 December 2006, the NAV per C share increased by 10.8 per cent to 112.90p per share before payment of a 1.6p interim dividend.

The conversion ratio resulted in 9,657 new shares being allotted for every 10,000 C shares held. As a result of the conversion on 24 January 2007, the Company has issued 21,485,211 new ordinary shares, which rank pari passu with the existing ordinary shares. This brings the total number of ordinary shares in issue to 61,576,638.

At the period end, 78 per cent of the ordinary share capital raised (net of launch costs) prior to 31 March 2005 was invested in VCT qualifying investments. All other VCT tests relating to the running of Baronsmead VCT 2 were also met during the period.

New Investments in the twelve month period to 31 March 2007

Company	Location	Sector	Activity	Investment Cost (£'000)
Unquoted investments				
Crew Clothing	London	Consumer	Branded clothing retailer	932
Empire World Trade	Spalding	Consumer	Fruit supplier	1,297
Fisher Outdoor Leisure	St Albans	Consumer	Distribution of cycle accessories	1,423
Independent Living Services*	Alloa	Healthcare	Domiciliary care	177
MLS	Stockport	IT	School library software	780
Quantix	Nottingham	IT	Database services	1,193
Xention Discovery*	Cambridge	Healthcare	Drug discovery	116
Total Unquoted				5,918
AiM-traded investments				
Appian Technology *	Bourne End	IT	Recognition software	125
Brainjuicer	London	Media	Marketing research	50
Brulines Holdings	Stockton-on-Tees	Business services	Pub management systems	290
Business Direct *	Rugby	Business services	Secure remote lockers	139
Claimar Care *	Birmingham	Healthcare	Domiciliary care	219
Concateno	London	Healthcare	Drugs testing	326
Driver Group *	Rossendale	Business services	Dispute resolution	91
Kiotech International	Surrey	Healthcare	Animal feed additives	200
Proactis Holdings	York	IT	Procurement software	400
Tangent Communications	London	Business services	Customised direct marketing	180
Tasty	London	Consumer	Restaurant operator	40
Worthington Nicholls	Manchester	Business services	Air conditioning contractors	525
Total AiM-traded				2,585
Total investment in the period				8,503

* Further round of financing

Chairman's Statement

On 1 March 2007, the Board announced that the accounting reference date would be changed from 31 March to 30 September in order to provide a full three years to invest funds first raised in October 2004. Therefore, the next statutory accounts will be for the 18 months to 30 September 2007.

However, company law requires that an annual general meeting must be held no later than 15 months after the previous AGM.

Accordingly, we will hold a brief formal meeting on 18 June 2007, while the next full AGM in December 2007 will follow the normal format of several presentations, buffet lunch and a shareholder workshop.

Long term performance

The total returns (tax-free) since inception are 105 per cent for the ordinary shares (since April 1998) and 26 per cent for the C shares (since October 2004). These returns are stated net of running costs and are based on the proceeds received by the Company after launch costs. Included in the running costs for the current period are additional fees payable to the Manager because the total return exceeded the annual performance trigger. In the twelve months to 31 March 2007, £432,000 plus VAT is payable, representing 20 per cent of this extra return.

Total returns have grown at an annual tax-free average of 8.3 per cent and 9.7 per cent since launch for the ordinary shares and C shares respectively. For the ordinary shares this includes total dividends paid of 57.4p representing an annual average of 6.4p tax-free per ordinary share (equivalent to a pre-tax return of 9.5p per share for a higher rate taxpayer). The initial VCT tax reliefs can also be added to these returns dependent on the individual tax benefits received by each private investor.

Based on the average dividend of 6.4p tax-free and using the period end share price of 100.5p, the dividend yield for ordinary shares equates to 6.37 per cent, which is tax-free for qualifying purchasers of the shares. For higher rate taxpayers, the 'gross equivalent' yield is 9.44 per cent.

The ordinary share total return is some 65 per cent ahead of the peer group average of generalist VCTs launched in the same year.

The returns over 1, 3 and 5 years are detailed below (source F&C Asset Management plc and Datastream). These returns are computed using the methodology used by the Association of Investment Companies (AIC) primarily for investment trusts. For the first time, the total returns are shown based on both the increase in NAV per share and the increase in share price over the periods, assuming that dividends are reinvested. The latter measure of past performance is relevant for secondary market purchasers.

Returns table

Ordinary Shares % growth	1 year %	3 years %	5 years %
NAV total return	+7.7	+44.6	+70.7
Share price total return	+10.3	+48.5	+80.4
FTSE All-Share total return	+11.2	+64.4	+51.2

These figures do not include the VCT tax benefits available to all qualifying shareholders including purchasers. As dividends are tax-free, the gross equivalent returns for higher rate taxpayers are higher.

The portfolio

In the six months since the previous interim review, seven new investments were made and after the sale of six investments the portfolio increased to 77 companies. Further rounds of investment were made in Independent Living Services, Xention Discovery, Business Direct and Claimar Care. The Board reviews the relative health of portfolio companies quarterly in terms of profitability as well as other non-financial benchmarks. At 31 March 2007, 82 per cent of the portfolio companies were reporting steady or better progress.

Public markets showed some volatility in early 2007 although our AiM portfolio closed 9.1 per cent up in the twelve months to 31 March 2007. Steady progress was evident across most of the unquoted portfolio with an overall gain of 22.7 per cent and good uplifts in value for a number of newer investments such as Independent Living Services, Fisher Outdoor Leisure and Reed & Mackay. There was a reduction in value at The Art Group and Occam, following lower trading profits and a full provision was made against the investment in Country Artists, although this was more than offset by a write back in the value of the loan stock in Hawksmere.

Chairman's Statement

The strategy for the AiM portion of the portfolio is to invest in profitable companies where the Manager ("ISIS") has relevant sector knowledge. There is now good diversity across the AiM-traded portfolio so that when some companies had profit warnings, (such as eg Solutions and Interlink Foods), or were down rated by the market, (such as Debtmatters and Top Ten), the impact was balanced by gains elsewhere in the portfolio, (such as Adventis, Claimar Care, Concateno, InterQuest, Jelf and Worthington Nicholls). This helped achieve the overall improvement in NAV.

The cash realisations in the period and overall multiples on the cost of investments are set out below. In addition, following the period end, Martin Audio was sold to a trade buyer for 3.5 times cost realising profits of £2.3 million. The sale of Americana too was an excellent result reflecting the private equity skills of ISIS, in identifying the opportunity within the consumer sector and then actively managing it during a period of fast growth. Since the first investment in August 2003, the total proceeds of capital and income realised from Americana totalled £5.6 million, some eight times the original cost.

A number of small investments have been made in early stage medical companies (an area of considerable potential). These deals are led by our preferred lead investor, MVM LLP, a specialist in this field. Domantis was one such investment (0.7 per cent of the Company was acquired in 2004 for £400,000) in an early stage drug discovery business. This is the first success from that group of companies in the portfolio. GSK (Glaxo) paid \$454 million for the company as a trade purchaser in January 2007 realising £1.48 million for Baronsmead VCT 2.

Loan stock redemptions were made by Boldon James, Martin Audio and SLR of £125,000, £617,000 and £204,000 respectively during the period.

VCT legislation

The 2007 Budget amended the 2006 Finance Act and we are now allowed up to six months to reinvest the proceeds of profitable exits into new qualifying investments. This change provides welcome flexibility and diminishes the need for forced investment or dividend decision-making that might have been required in order to comply with the 2006 revisions. Discussions continue with HM Revenue &

Realisations in the twelve month period to 31 March 2007

		First investment date	Cost £'000	Proceeds £'000	Multiple return
Unquoted investments					
Americana	Trade sale	August 2003	545	1,692	8.0*†
Boldon James	Partial loan note redemption	June 2005	125	125	1.1*
Domantis	Trade sale	April 2004	400	1,484	3.7
Martin Audio	Loan note redemption	August 2003	617	617	1.3*
SLR Holdings	Loan note redemption	September 2004	204	204	1.3*
AiM-traded investments					
Blooms of Bressingham	Trade sale	April 2001	320	291	0.9
Cardpoint	Market sales	May 2003	4	7	1.8
Colliers CRE	Rights sale	July 2001	–	67	–
Debtmatters Group	Market sales	June 2005	53	280	5.3
InterQuest Group	Market sales	May 2005	14	23	1.6
Medal Entertainment & Media Group	Market sales	August 2002	72	84	1.2
neuTec Pharma	Market sales	February 2002	78	548	7.0
Ovum	Trade sale	March 2006	250	395	1.6
Polaron	Trade sale	March 2004	296	188	0.6
Scott Tod	Market sales	May 2004	421	152	0.4
Talarius	Market sales	May 2005	313	814	2.6
Worthington Nicholls	Market sales	May 2006	263	538	2.0
Totals			3,975	7,509	

* Includes interest received

† Multiple return includes realisations made in December 2004 and November 2005, accounted for in prior periods.

Chairman's Statement

Customs as to the implication of the two amendments introduced for raising new share capital after 6 April 2007. Such new capital can only be invested in companies raising no more than £2 million from VCTs and in companies with less than 50 employees. We understand these aspects are as a result of EU harmonisation towards the application of state aid in financing Small Enterprises. However, they are illogical and cannot be in the best interests of promoting growth in smaller companies.

However, the way in which Baronsmead VCT 2 continues to operate is unaffected by the 2007 Budget unless new capital is raised. At present the Board is not minded to raise new capital but it will keep this matter under review especially as the detailed legislative changes become known.

Development of the secondary market

Since launch in 1998, Baronsmead VCT 2 has built a consistent track record of generating positive total returns and paying regular dividends, tax-free to qualifying shareholders. We believe that a thriving secondary market will be encouraged as VCTs deliver consistent performance and investors recognise that the best of such companies can be compared favourably with other investment trusts specialising in unquoted investments. This is especially true as VCTs offer taxation advantages to investors which offset the investment restrictions applied by VCT legislation. There have been a few third party purchasers of existing shares in the last six months and the level of buy backs over the last twelve months has fallen to 825,000 ordinary shares into Treasury, in part due to 526,067 shares purchased by the Dividend Reinvestment

Plan. This is approximately half the level bought back in the financial year to 31 March 2006.

Furthermore, the Board is aware from both the recent surveys across the 'Baronsmead' family of VCTs that there is an indication that some 15 per cent of existing shareholdings may be interested in purchasing more shares. To activate such interest will require regular and relevant communication and to facilitate this, it is intended to stimulate the use of the Company's website (www.baronsmeadvct2.co.uk) as well as accelerate the introduction of electronic communication, which is being encouraged by the new Companies Act 2006. ISIS has also re-employed Michael Probin as an investor relations specialist to support this activity following his return from two years overseas.

Outlook

The total returns attributable to the ordinary shares are showing increasing consistency and this is supporting the upward trend of average annual dividends. The current portfolio is showing a preponderance of good to steady trading and the profits taken from recent exits have been at a high multiple over cost. The Manager continues to be highly selective when making investments in new unquoted and AiM-traded opportunities and we look to the future with cautious optimism.

Clive Parritt

Chairman

15 May 2007

Investment Portfolio

Portfolio valuation at 31 March 2007

Company	Sector	Book cost £'000	Valuation £'000	% of Net Assets
Unquoted				
RLA Media	Media	1,438	2,746	3.9
Martin Audio	Business services	351	2,617	3.8
The Art Group	Media	1,576	2,406	3.5
Fisher Outdoor Leisure	Consumer markets	1,423	2,238	3.2
Reed & Mackay	Business services	1,211	1,946	2.8
Kafévend	Consumer markets	1,246	1,884	2.7
Empire World Trade	Business services	1,297	1,596	2.3
Independent Living Services	Healthcare	801	1,522	2.2
Boldon James	IT	562	1,416	2.0
Crucible Group	Business services	1,032	1,400	2.0
Quantix	IT	1,193	1,194	1.7
kidsunlimited	Business services	481	989	1.4
Crew Clothing	Consumer markets	932	932	1.4
Hawksmere	Business services	942	909	1.3
SLR Holdings	Business services	290	898	1.3
MLS	IT	780	780	1.1
Green Issues	Media	498	739	1.1
Occam	Business services	421	488	0.7
Xention Discovery	Healthcare	213	213	0.3
Oxxon Pharmaccines	Healthcare	250	157	0.2
Country Artists	Consumer markets	517	–	0.0
Total unquoted		17,454	27,070	38.9
FTSE SmallCap				
Ardana	Healthcare	481	450	0.6
Total FTSE SmallCap		481	450	0.6
Traded on AIM				
Jelf Group	Business services	551	1,649	2.4
Staffline Recruitment Group	Business services	249	1,342	1.9
Huveaux	Media	666	1,269	1.8
Murgitroyd Group	Business services	319	1,132	1.6
Begbies Traynor Group	Business services	283	1,091	1.6
Vectura Group	Healthcare	578	1,037	1.5
Claimar Care	Healthcare	569	972	1.4
Worthington Nicholls	Business services	263	903	1.3
Colliers CRE	Business services	470	846	1.2
InterQuest Group	Business services	310	788	1.1
Driver Group	Business services	438	702	1.0
Adventis Group	Media	281	660	1.0
Proactis Holdings	IT	400	558	0.8
Concateno	Healthcare	325	554	0.8
Appian Technology	IT	250	452	0.7
IDOX	IT	600	414	0.6
Debtmatters Group	Consumer markets	167	407	0.6
Quadnetics	Business services	296	403	0.6
Brulines Holdings	Business services	290	387	0.6
Interactive Prospect Targeting	Media	253	372	0.5
Sanderson Group	IT	387	372	0.5
Real Good Food Company	Consumer markets	620	344	0.5
Top Ten	Consumer markets	759	329	0.5
VI Group	IT	500	326	0.5
Autoclenz Holdings	Consumer markets	400	298	0.4
Conder Enviromental	Business services	607	276	0.4

Investment Portfolio

Company	Sector	Book cost £'000	Valuation £'000	% of Net Assets
Traded on AiM (continued)				
WIN	IT	263	274	0.4
Prologic	IT	310	269	0.4
Stagecoach Theatre Arts	Consumer markets	419	239	0.3
Kiotech International	Business services	200	233	0.3
eg solutions	IT	375	229	0.3
Air Music & Media Group	Media	575	203	0.3
ATA Group	Business services	355	199	0.3
Cardpoint	Business services	109	192	0.3
Tangent Communications	Business services	180	183	0.3
Business Direct Group	Business services	443	171	0.2
Sirius Financial Solutions	IT	150	167	0.2
Medal Entertainment & Media Group	Media	227	163	0.2
Cobra Biomanufacturing	Healthcare	210	123	0.2
Xpertise Group	Business services	296	113	0.2
Inter Link Foods	Consumer markets	264	101	0.1
AorTech International	Healthcare	285	88	0.1
Universe Group	Business services	195	70	0.1
Brainjuicer	Media	50	66	0.1
Fishworks	Business services	128	60	0.1
MKM Group	Business services	284	55	0.1
Landround	Business services	467	54	0.1
Tasty	Consumer markets	40	44	0.1
Cantono (formerly Hamsard)	IT	375	34	–
Charterhouse Communications	Media	355	22	–
Capcon Holdings	Business services	137	11	–
Highams Systems Services	IT	197	11	–
Micap	Healthcare	375	11	–
Zoo Digital	IT	438	10	–
Total AiM		18,533	21,278	30.5
Traded on PLUS Market				
Chemistry Communications	Business services	500	152	0.2
Total PLUS Market		500	152	0.2
Interest bearing securities				
UK Treasury 5% 07/03/08		10,176	10,153	14.5
Money Market OEIC		6,044	6,044	8.7
Total interest bearing securities		16,220	16,197	23.2
Total investments		53,188	65,147	93.4
Net current assets less creditors falling due after one year			4,598	6.6
Net assets			69,745	100.0

Independent Review Report to Baronsmead VCT 2 plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 10 to 13 and 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.

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 Listing Rules of the Financial Services Authority. 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 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 which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the UK. 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 is substantially less in scope than an audit performed in accordance with Auditing Standards 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 twelve months ended 31 March 2007.

KPMG Audit Plc
Chartered Accountants
Edinburgh

15 May 2007

Unaudited Income Statement

for the twelve months to 31 March 2007

	Ordinary shares		
	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000
Unrealised gains on investments	–	4,132	4,132
Realised gains on investments	–	2,552	2,552
Income	2,414	–	2,414
Investment management fee	(417)	(1,758)	(2,175)
Other expenses	(437)	–	(437)
Profit on ordinary activities before taxation	1,560	4,926	6,486
Taxation on ordinary activities	(322)	322	–
Profit on ordinary activities after taxation	1,238	5,248	6,486
Return per ordinary share:	2.00p	8.47p	10.47p

Unaudited Reconciliation of Movements in Shareholders' Funds

for the twelve months to 31 March 2007

	2007 Ordinary Shares £'000	2007 C Shares £'000	2007 Total £'000
Opening shareholders' funds	46,897	22,677	69,574
Conversion of C shares	24,760	(24,760)	–
Profit for the period	4,045	2,441	6,486
Decrease in share capital in issue	(847)	–	(847)
Expenses of share issue/conversion of share premium	(12)	(2)	(14)
Dividends paid	(5,098)	(356)	(5,454)
Closing shareholders' funds	69,745	–	69,745

Notes

- The unaudited interim results which cover the twelve months to 31 March 2007 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 year ended 31 March 2006. The Company's year end has been changed from 31 March to 30 September and the current accounting period will end on 30 September 2007.
- Return per ordinary share is based on a weighted average of 61,919,789 ordinary shares in issue (31 March 2006 – 41,108,544).
- Earnings for the twelve months to 31 March 2007 should not be taken as a guide to the results of the full financial period to 30 September 2007.
- During the twelve months ended 31 March 2007 the Company purchased 825,000 ordinary shares to be held in Treasury at a cost of £847,000. At 31 March 2007 the Company holds 1,920,000 ordinary shares in Treasury. There were 61,576,638 ordinary shares in issue at 31 March 2007 (31 March 2006 – 40,916,427). There were no C shares in issue at 31 March 2007 (31 March 2006 – 22,247,650). On 24 January 2007 the C shares converted into ordinary shares in accordance with the terms set out in the C share prospectus dated 3 September 2004. The calculation date was 31 December 2006 and resulted in the issuance of 21,485,211 new ordinary shares.
- An interim dividend comprising 0.7p (revenue) and 4.3p (capital) was paid on 20 December 2006 to ordinary shareholders on the register on 17 November 2006. An interim dividend comprising 0.8p (revenue) and 0.8p (capital) was paid on 20 December 2006 to C shareholders on the register on 17 November 2006. A second interim capital dividend of 5.0p was paid on 30 March 2007 to ordinary shareholders on the register on 9 March 2007.
- On 2 November 2006 the Company received court approval for the cancellation of the Share Premium Account of the C shares, (then standing at a credit of £10,031,000) and the transfer of this amount to the Special Distributable Reserve.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the year to 31 March 2006, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2006 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.

Audited Income Statement

for the year ended 31 March 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	–	3,997	3,997	–	1,838	1,838	–	5,835	5,835
Realised gains/(losses) on investments	–	1,590	1,590	–	(60)	(60)	–	1,530	1,530
Income	1,903	–	1,903	1,091	–	1,091	2,994	–	2,994
Investment management fee	(278)	(1,517)	(1,795)	(129)	(485)	(614)	(407)	(2,002)	(2,409)
Other expenses	(241)	–	(241)	(127)	–	(127)	(368)	–	(368)
Profit on ordinary activities before taxation	1,384	4,070	5,454	835	1,293	2,128	2,219	5,363	7,582
Tax on ordinary activities	(284)	375	91	(247)	156	(91)	(531)	531	–
Profit on ordinary activities after taxation	1,100	4,445	5,545	588	1,449	2,037	1,688	5,894	7,582
Return per ordinary share/C share	2.68p	10.81p	13.49p	2.66p	6.56p	9.22p	2.67p	9.33p	12.00p

Audited Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 2006

	2006 Ordinary shares £'000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds	48,469	21,129	69,598
Profit for the year	5,545	2,037	7,582
Deferred consideration	12	–	12
(Decrease)/increase in share capital in issue	(459)	239	(220)
Dividends paid	(6,670)	(728)	(7,398)
Closing shareholders' funds	46,897	22,677	69,574

Unaudited Balance Sheet

	As at 31 March 2007	As at 31 March 2006†		
	Ordinary Shares Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets				
Investments				
Unquoted	27,070	16,230	4,110	20,340
Traded on AiM	21,278	16,404	3,909	20,313
Traded on PLUS market	152	119	–	119
Listed	450	530	–	530
Listed interest bearing securities	16,197	11,229	13,302	24,531
	65,147	44,512	21,321	65,833
Current assets				
Debtors	311	230	72	302
Cash at bank and on deposit	5,499	3,290	1,672	4,962
	5,810	3,520	1,744	5,264
Creditors: amounts falling due within one year	(1,164)	(1,135)	(388)	(1,523)
Net current assets	4,646	2,385	1,356	3,741
Total assets less current liabilities	69,793	46,897	22,677	69,574
Creditors: amounts falling due after one year	(48)	–	–	–
Net assets	69,745	46,897	22,677	69,574
Capital and reserves				
Called-up share capital	6,350	4,201	11,124	15,325
Share premium account	3,572	3,574	10,033	13,607
Capital redemption reserve	9,255	279	–	279
Revaluation reserve	11,959	5,807	2,040	7,847
Profit and loss account	38,609	33,036	(520)	32,516
Equity shareholders' funds	69,745	46,897	22,677	69,574

†These figures are audited

	As at 31 March 2007	As at 31 March 2006†	
	Ordinary Shares £'000	Ordinary Shares £'000	C Shares £'000
Net asset value per share	113.27p	114.62p	101.93p
Number of shares in issue at balance sheet date	61,576,638	40,916,427	22,247,650
Treasury net asset value per share†	112.88p	114.62p	
Number of ordinary shares in issue	61,576,638	40,916,427	
Number of ordinary shares held in Treasury	1,920,000	1,095,000	
Number of listed ordinary shares	63,496,638	42,011,427	

†At an EGM held on 2 November 2006, shareholders renewed the existing authority to disapply pre-emption rights in relation to the allotment or sale from Treasury of up to 10 per cent of the listed share capital. The Board is now mandated to sell Treasury shares at a discount to the prevailing NAV. Accordingly, the shares held in Treasury at 31 March 2007 have been valued at middle market price (100.5p).

Summarised Unaudited Statement of Cash Flows

	Twelve months to 31 March 2007	Year to 31 March 2006‡		
	Ordinary Shares Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash (outflow)/inflow from operating activities	(544)	(974)	697	(277)
Capital expenditure and financial investment	7,370	7,319	(773)	6,546
Equity dividends paid	(5,454)	(6,670)	(728)	(7,398)
Net cash inflow/(outflow) before financing	1,372	(325)	(804)	(1,129)
Financing	(835)	(485)	(113)	(598)
Increase/(decrease) in cash	537	(810)	(917)	(1,727)
Reconciliation of net cash flow to movement in net cash				
Increase/(decrease) in cash	537	(810)	(917)	(1,727)
Net cash at beginning of period	4,962	4,100	2,589	6,689
Net cash at end of period	5,499	3,290	1,672	4,962
Reconciliation of operating profit before taxation to net cash flow from operating activities				
Profit on operating activities before taxation	6,486	5,454	2,128	7,582
Realised (gains)/losses on investments	(2,552)	(1,590)	60	(1,530)
Unrealised gains on investments	(4,132)	(3,997)	(1,838)	(5,835)
(Increase)/decrease in debtors	(129)	155	230	385
(Decrease)/increase in creditors	(217)	(996)	117	(879)
Net cash (outflow)/inflow from operating activities	(544)	(974)	697	(277)

‡ These figures are audited

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).



Information on DRIP mechanism, share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)

www.baronsmeadvct2.co.uk

e-mail: rhonda.nicoll@fandc.com

Tel: 0131 718 1074. Fax: 0131 225 2375.



Any other points, i.e. valuations of underlying companies, asset allocations, dividend policies and the investment process:

ISIS EP LLP (Investment Manager)

www.isisep.com

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

e-mail: david.thorp@isisep.com; prem.mohan-raj@isisep.com; margaret.barff@isisep.com

Tel: David Thorp 020 7506 5631; Prem Mohan-Raj 020 7506 5640;
Margaret Barff 020 7506 5630.



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.

The middle market share price of the ordinary shares was as follows:

	Share Price		Discount to NAV	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Ordinary shares	100.50p	100.50p	(11.27%)	(12.32%)

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:

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

Please call the Company Secretary, whose details are printed above, if you or your adviser have any questions about this process.

Financial Calendar

18 June 2007	Ninth Annual General Meeting
August 2007	Quarter end 30 June 2007 VCT factsheet sent to shareholders
November 2007	Final results for 18 month period to 30 September 2007 announced and annual report and accounts sent to shareholders
December 2007/January 2008	Tenth Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of Baronsmead VCT 2 plc will be held at the offices of ISIS EP LLP, 100 Wood Street, London EC2V 7AN, on 18 June 2007 at 11 am for the following purposes:

To consider and, if thought fit, pass the following resolutions:

Ordinary business

1. That Clive Parritt, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
2. That Godfrey Jillings, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
3. That Gill Nott, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
4. That Nicholas Timpson, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
5. That KPMG Audit Plc, Chartered Accountants, be re-appointed as auditors and that the Directors be authorised to determine their remuneration.

Special business

Special resolutions

6. That:
 - (a) the Directors of the Company (the "Directors") be and are hereby empowered, pursuant to section 95(1) of the Companies Act 1985 (the "Act"), to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act granted on 20 June 2005 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:
 - (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of ordinary shares of 10p each in the Company ("Ordinary Shares") and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);
 - (ii) (otherwise than pursuant to sub-paragraph (i) above) up to an aggregate nominal amount of £615,766 provided that the maximum number of Ordinary Shares which may be allotted pursuant to this sub-paragraph (ii) shall be 6,157,660 Ordinary Shares;
and shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and in this resolution "allot" and "allotment" shall be construed in accordance with section 94(3A) of the Act;
 - (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.
7. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 10p each in the company ("Ordinary Shares"), provided that:
 - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 9,230,330;
 - (b) the minimum price which may be paid for each Ordinary Share is 10p;
 - (c) the maximum price which may be paid for an ordinary share shall not exceed the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force at the date of purchase;
 - (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and
 - (e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed or executed wholly or partly after the expiration of such authority.
8. That:
 - (a) the Company is hereby generally and unconditionally authorised, subject to and in accordance with the provisions of the Companies Act 2006 and the Articles of Association of the Company, to send or supply all types of notices, documents or information to members by means of electronic equipment for the processing (including digital compression), storage and transmission of data by wires, radio, optical technologies or any other electromagnetic means, including by making such notices, documents or information available on a website; and
 - (b) that the new Articles of Association, a copy of which was presented to the meeting and signed by the Chairman for the purposes of identification, be hereby approved and adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association with effect from the end of this meeting.
9. That the Articles of Association of the Company be and are hereby amended by replacing the first sentence in Article 160.1 with the following sentence:

"The Board shall procure that at the annual general meeting of the Company in 2013, and every annual general meeting thereafter, an ordinary resolution will be proposed to the effect that the Company shall continue in being as a venture capital trust."

By order of the Board

Rhonda Nicoll

for F&C Asset Management plc, *Secretary*
80 George Street
Edinburgh EH2 3BU
15 May 2007

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered on the register of members of the Company as at 6.00 pm on 16 June 2007, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 6.00 pm on 16 June 2007, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

A member who is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the company.

To be valid, a proxy card must be lodged with the company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB at least 48 hours before the meeting. A proxy card for use by shareholders is enclosed. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.

Appendix:

Explaining the Business of the Annual General Meeting

Directors standing for re-election

Clive Parritt (Chairman)

(Date of Appointment 18 February 1998), (age 64) is a chartered accountant with over 30 years' experience of providing strategic, financial and commercial advice to medium sized businesses. Until February 2001 he was chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is a member of the Council and Board of the Institute of Chartered Accountants in England and Wales and chairman of BG Consulting Group Limited. He is also a Director of London & Associated Properties plc, F&C US Smaller Companies PLC and CardioMag Imaging Inc. He specialises in corporate finance and was chief executive of a leading independent corporate finance house until July 2003. Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses. He is also a non-executive Director to Baronsmead AIM VCT plc.

Godfrey Jillings

(Date of Appointment 18 February 1998), (age 66) is a non-executive director/chairman of several fast growth unquoted companies including Gladedale Holdings (deputy chairman). Gladedale Holdings is now ranked eighth in terms of fastest annual profits growth and is now in the top 10 national housebuilding groups. He held a range of senior executive appointments at Natwest including responsibility for their retail stockbroking, unit trust and PEP operations. He was CEO of FIMBRA, the regulatory body for IFAs and a deputy CEO of its successor PIA (1990-1994). He was deputy chairman of DBS plc (1996-2002), the leading IFA network prior to its take-over. He is also a non-executive director of Baronsmead VCT plc.

Gillian Nott (OBE)

(Date of Appointment 18 February 1998), (age 62) has in-depth experience of private investors as chief executive of ProShare (1994-99). Previously she was responsible for the private equity portfolio at BP and until November 2004 she was a director of the FSA. She is a director of Martin Currie Portfolio Investment Trust plc, Merrill Lynch British Smaller Companies Trust plc and chairman of Witan Pacific Investment Trust PLC. She is also chairman of Baronsmead VCT plc and a director of Baronsmead VCT 3 plc. Gill was recently appointed as a deputy chairman of the AIC.

Nicholas Timpson

(Date of Appointment 18 February 1998), (age 66) was the founder, chairman and managing director of Furnitureland Holdings plc. He is chairman of Whitmeadow Furniture Ltd and a director of The Vestey Group Ltd. He brings to the board long experience in the development of private companies. Before founding Furnitureland Holdings plc in 1973, he worked as a management consultant for McKinsey & Co.

The Board confirms that, following formal performance evaluations, the performance of each of the directors seeking re-election continues to be effective and demonstrates commitment to the role, and believes that it is therefore in the interests of shareholders that Mr Parritt, Mr Jillings, Ms Nott and Mr Timpson be re-elected.

Directors authority to Disapply Pre-emption Rights and re-issue of Treasury Shares

Resolution 6 renews and extends the Directors' authority to allot equity securities (including re-issuing ordinary shares held in Treasury) for cash without pre-emption rights applying in certain circumstances. This Resolution would authorise the Directors, until the date falling 15 months after the date of the passing of this Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to issue new ordinary shares and / or re-issue shares out of Treasury for cash on a non-pre-emptive basis to existing shareholders or new investors up to a maximum of 6,157,660 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 15 May 2007). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders as a whole. Any issue proceeds would be available for investment in line with the Company's existing policy and may be used, in part, to purchase ordinary shares in the market.

The Company currently holds 1,920,000 ordinary shares in Treasury. If Resolution 6 is passed, the Board will consider itself mandated by shareholders to re-issue ordinary shares out of Treasury at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests of shareholders to do so. However, ordinary shares will be never 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.

Teather & Greenwood, the Company's brokers, currently provide a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing ordinary shares out of Treasury when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30 per cent initial income tax relief, all further dividends will be tax-free and if these shares are subsequently sold no CGT is payable by qualifying shareholders.

Appendix: Explaining the Business of the Annual General Meeting

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued capital expires at the end of the Annual General Meeting and Resolution 7 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase. This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

New Articles of Association

Electronic communications with Shareholders

The authority proposed under Resolution 8 relates to the approval of a general power to allow the Company to provide shareholders with notices, documents and information in electronic form (such as by email or fax) and by means of publication on a website in accordance with the Companies Act 2006 (the "2006 Act"). This resolution also seeks approval for the existing Articles of Association of the Company to be updated with corresponding electronic communication provisions and certain other technical amendments required by the 2006 Act. The proposed amendments to the Articles of Association principally update the definitions used in the Articles to reflect the definitions used in the 2006 Act and also amend the provisions relating to the use and delivery of forms of proxy, the publication of the Company's financial information and the despatch of notices to shareholders, in each case to reflect the provisions concerning electronic communications contained in the 2006 Act. Shareholders should note that the terms of the new Articles of Association with all the proposed changes highlighted are available for inspection at the offices of ISIS EP LLP, 100 Wood Street, London until the close of the Annual General Meeting on 18 June 2007.

The Company will write to shareholders in due course to request individual consent to receive communications in electronic form or by means of publication on a website. Those shareholders that either expressly agree to such form of communication or fail to respond within a specified period (in which case they will be deemed to have given their consent) may be supplied notices, documents and other information (such as annual reports) by the Company electronically, including by means of publication on a website. Any shareholder who expressly disagrees to receiving communications electronically will continue to receive communications from the Company in hard copy form. In any event, even if a shareholder consents (or is deemed to have consented) to receive electronic communications that shareholder will remain entitled, at any time, to request a hard copy of any information that the Company has provided by email or by publication on a website.

Extension to the life of the Company

One of the main changes announced in the March 2006 Budget was that the shareholding period would be moved from 3 years to 5 years from 6 April 2006. This means that in order for the initial income tax relief not to be withdrawn, shareholders who subscribed after 6 April 2006 must hold their shares for 5 years from the date of investment. Whilst no shares are currently being issued, Resolution 9 extending the life of the Company to beyond the AGM in 2013 will permit new shares to be issued in the current financial year if the Board decides to do so.

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 Managers

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

Registrars and Transfer Office

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

Bankers

JP Morgan Bank
125 London Wall
London EC2Y 5AJ

Stockbrokers

Teather & Greenwood
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.