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Baronsmead VCT 2 plc

2004

Annual review & report
for the year ended
31 March 2004



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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.

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www.baronsmeadvct2.co.uk

VCT Tax Benefits for Shareholders beyond 6 April 2004

To obtain VCT tax reliefs up to £200,000 per annum, a VCT investor must be a 'qualifying' individual over the age of 18 with UK taxable income. The tax reliefs since 6 April 2004 are:

- Income tax relief of 40% on subscription into new shares, which is retained by shareholders if the shares are held for more than three years. This relief is available for the two tax years 2004/05 and 2005/06.
- VCT dividends (including capital distributions of realised gains on investments) are not subject to income tax.
- Capital gains on disposal of VCT shares are tax free, whenever the disposal occurs.

Financial Highlights

- NAV per share increased by 13.6 per cent to 101.9p after payment of dividends
- Dividends totalling 8.5p per share (equivalent to 12.6p per share for higher rate tax payers) were paid during the year
- The total return since launch is now 43.6 per cent, which compares with a fall of 8.3 per cent in the FTSE All-Share over the comparable period
- Portfolio increased to 54 companies following 17 new investments and 8 complete realisations

Financial Summary

	31 March 2004	31 March 2003	% change	
Ordinary Share – capital values				
Net asset value per share (net of issue expenses)	101.88p	89.65p	+13.6	
Share price	90.00p	80.00p	+12.5	
Discount	(11.7%)	(10.8%)	–	
Net asset value total return*	24.3%	(3.9%)	–	
Total net assets (net of issue expenses)	£41.6m	£36.7m	+13.6	
	Year to 31 March 2004	Year to 31 March 2003	% change	
Dividends				
Revenue dividends per Ordinary Share	1.20p	2.10p	(42.9)	
Capital dividends per Ordinary Share	7.30p	4.90p	+49.0	
	31 March 2004		31 March 2003	
	High	Low	High	Low
Share price	91.0p	80.0p	92.5p	79.5p
Net asset value	101.9p	86.0p	101.9p	87.7p

*Being the growth in net assets assuming gross dividends reinvested.

Baronsmead VCT 2 plc

Net asset value, net asset value total return* and FTSE All-Share total return

Six Year Summary

Year ended 31 March	Net asset value per Share p	Dividends per Ordinary Share net p	Cumulative dividends per Ordinary Share net p	Net asset value total return* p	FTSE All-Share Total Return p
1999	94.31	3.00	3.00	104.44	105.06
2000	119.59	3.20	6.20	134.62	115.45
2001	112.30	3.90	10.10	130.66	103.02
2002	100.54	2.80	12.90	120.15	99.76
2003	89.65	7.00	19.90	115.49	70.02
2004	101.88	8.50	28.40	143.56	91.72

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

Cash Returned to Shareholders

The Board is also aware that shareholders are concerned that the original capital subscribed into Baronsmead VCT 2 has been maintained. The table below shows the cash returned to 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 p	Net annual yield* %	Gross yield† %
1998	100	20.0	80.0	28.9	6.0	8.8
1999	102	20.4	81.6	25.4	6.2	9.2
2000 (March)	130	26.0	104.0	22.2	5.3	7.9
2000 (February)	137	27.4	109.6	22.2	5.1	7.5

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

Note 2 – The share price of Baronsmead VCT 2 has fluctuated between 80p and 91p over the year under review.

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

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

Chairman's Statement

I am pleased to report an increase in the Net Asset Value per share of 13.6 per cent and the payment of 8.5p per share tax-free dividends over the last 12 months (equivalent to 12.6p per share for higher rate tax payers). Significant growth has been achieved in portfolio size and diversity.

Shareholders agreed on 22 March 2004 to extend the life of Baronsmead VCT 2 to 2011.

Clive Parritt
Chairman

- When comparisons are made with its peer group of 8 other generalist VCTs, the total return of Baronsmead VCT 2 is 50 per cent ahead of its peer group average.

Achieved results

During the year to 31 March 2004 the NAV per share rose by 13.6 per cent from 89.65p to 101.88p after allowing for tax-free dividend payments of 8.5p per share (equivalent to 12.6p per share for higher rate tax payers). The total return (assuming all dividends were reinvested) of Baronsmead VCT 2 is now 43.56 per cent since launch. This compares with a FTSE All-share return on a comparable basis of minus 8.3 per cent. The total return above has been stated net of all costs, which have been contained at 2.7 per cent of average net assets which is one of the lowest cost ratios for generalist VCTs.

The dividends paid during the year comprised 1.2p per share from income and 7.3p per share from the distribution of the profits realised from the successful sale of a number of unquoted and Aim investments.

Performance measurement

The performance of Baronsmead VCT 2 has continued to progress well in absolute and comparative terms over the year. Page 2 provides full details of the various performance measures:

- Returns to shareholders continue to be well ahead of the FTSE All-share regardless of the date of subscription.
- The Company has consistently been one of the top two VCTs when compared with the other 33 generalist VCTs.

Investment environment

Corporate buyers have begun to show interest in the acquisition of smaller growth companies and so the private equity world has seen increased activity with both new acquisitions and exits. The Managers have benefited from this renewed market confidence in both the numbers of new investments and realisations made. The health of the residual portfolio is measured quarterly and the overall trends remain positive as detailed in the Manager's Review.

The Aim index has risen substantially in capital terms since March 2003 and this section of the portfolio has benefited with a 41 per cent uplift. There is currently a strong flow of Aim flotations, although many of these do not meet either the VCT qualifying rules or the selection criteria of the Managers. The majority of Aim investing by Baronsmead VCT 2 has been into new share placings by existing Aim-traded companies where their market position and the capabilities of their directors/management are clearer.

New investment and realisations

The high level of new investment during the year enabled all cash in the non-interest bearing accounts to be invested and currently 76 per cent of the capital raised by 31 March 2002 is invested in qualifying holdings. The portfolio grew to 54 investments after eight complete disposals. The Manager's report comments more fully on the portfolio and its increased diversity both by sector and differing stages of development.

The sale of four unquoted companies realised net profits of £2.2m although £1.8m was written off in two other companies. The sale of Premier Direct and top slicing other quoted shareholdings added another £0.9m capital profit. In all the net realised profits totalled £1.3m for the year.

Chairman's Statement

Meeting shareholder objectives and priorities

The shareholder survey conducted in April 2004 received some 300 replies. The majority of respondents confirmed that their priority was to achieve capital growth and receive attractive tax-free dividends. 90 per cent of responding shareholders did not intend to sell their shares in the foreseeable future.

57 per cent of respondents indicated that they intended to subscribe for further new issues of shares over the next two years, which supports the Board's decision to raise new capital as described below.

Shareholders will have noted that the level of dividends depends more on successful realisations than income. As anticipated, and advised to shareholders previously, the level of maintainable revenue has reduced progressively as the fund has become more fully invested in growth companies.

Conversely, there has been a flow of successful realisations which has enabled good dividends to be paid. Since launch the average annual tax-free dividend paid to shareholders has been 4.5p a share (equivalent to 6.7p per share for higher rate tax payers). The Board aims to sustain this level of average dividend if possible. However, shareholders will appreciate that this depends primarily on the level of realisations achieved and it cannot therefore be guaranteed. Indeed there will be variations in the amount of dividends paid from year to year.

482 shareholders representing 98 per cent of the votes cast at the EGM held on 22 March 2004 approved the extension of the life of Baronsmead VCT 2 from 2005 to 2011. This gives certainty to new subscribers by ensuring that there will be sufficient time for them to retain their income tax relief on subscription and for the new investments made to mature and become realisable.

Subsequently 881,768 new shares were issued to existing shareholders on 2 April 2004 at 105p per share and 837,297 shares were issued under the dividend reinvestment scheme during the year. Under the Board's buy-back policy, 845,000 shares were bought back at a discount of approximately 10 per cent to NAV per share. The Board will continue to price share issues or buybacks to ensure that the interests of existing shareholders are not diluted.

Fund raising

Baronsmead VCT 2 is close to being 80 per cent invested which is the level targeted in the original prospectuses issued between 1998 and 2000. The Board believes that raising new share capital now, will expand the portfolio at an advantageous time in the economic cycle. It will also increase diversity and reduce running costs as a percentage of shareholders' funds. The Board proposes to raise approximately £20m, recognising that 70 per cent of the net proceeds will need to be invested prior to 31 March 2007. The resolutions seeking shareholder authority to raise these funds will be set out in an Extraordinary General Meeting (EGM) circular, which will be forwarded shortly to shareholders. If fully subscribed, your Company is currently set to become the largest VCT.

Investment management

The Investment Manager, ISIS Equity Partners plc, has continued to invest in building greater skills and UK coverage. It is one of the largest private equity teams in the VCT market place with regional offices in Birmingham and Manchester, now recognised as the key private equity centres outside London.

The lead manager, David Thorp, has been chairman of the external VCT Fund Managers committee which has been in regular dialogue with HM Treasury and the Inland Revenue. He is actively supported by Michael Probin, your investor relations manager. Together with the other members of the ISIS Equity Partners team, the Investment Manager has continued to be at the forefront of VCT development and the Board was particularly delighted that ISIS Equity Partners was awarded the accolade of UK Private Equity House of the year at the Real Deals/BVCA awards in April 2004. This is a well deserved recognition of their efforts to meet shareholder objectives.

The Board too has stimulated strategy discussions as to how Baronsmead VCT 2 can build on what has been achieved to date. Together with the Managers, the combined ambition is to sustain our strong position and demonstrate that Baronsmead VCT 2 provides one of the best ways for shareholders to invest in private equity.

The Board believes that it is important for the objectives of the shareholders and the remuneration of the manager to be closely

Chairman's Statement

aligned. For that reason we consider that it is more appropriate for the remuneration of the manager to bear a direct relationship to the overall performance of the assets under management.

It is proposed therefore to base the manager's performance fee on the increase in the total return (net asset value plus dividends reinvested) rather than solely on the level of dividends paid.

Achieving a consistent return of 2 per cent above base rate is a significant challenge in the private equity market. The proposal requires the manager to exceed this hurdle in each separate accounting period using the NAV total return at 1 April of each year as a base. If successful they will then receive 20 per cent of the excess subject to certain limits. The Board hopes that returns in excess of this level will be achieved consistently and that, if they are, shareholders will support the principle of rewarding the manager for outstanding performance.

The EGM circular will contain full details of the proposed change to the Manager's performance fee being recommended by the Board as reported in the Director's report on pages 14 and 15. If approved the revised basis should take effect from 1 July 2004.

Outlook

Our intention is to build on the progress of last year and continue to meet the objectives of capital growth and pay attractive dividends. Both depend on the Manager selecting the right investments in the first place and then playing an active role as portfolio companies grow towards eventual realisation. We wish to provide appropriate services for shareholders to help them meet their differing financial priorities in line with the recent changes in VCT tax reliefs. The dialogue with shareholders has been invaluable in helping to set the policy to meet your priorities.

We hope many of you will attend our Annual General Meeting to be held on 16 June 2004 at 11.00 am at the offices of ISIS Equity Partners plc, 100 Wood Street, London EC2V 7AN. The Investment Manager, David Thorp, will give a presentation on the investment portfolio and current prospects. We have also invited the Managing Director of Language Line (new investment in August 2003) to present that Company's story. A buffet lunch will follow the presentations and a short workshop will be available for those shareholders who wish to understand more about private equity and the financial planning possibilities for a shareholder in Baronsmead VCT 2.

Clive Parritt

Chairman

17 May 2004



Manager's Review

The last year has been very active with a high level of investment and the realisation of several unquoted and Aim-traded investments.

David Thorp

Lead Investment Manager

Michael Probin

Investor Relations Manager

Gary Fraser

Company Secretary

New investments

£10.4m was invested across 17 new investments of which nine were into unquoted companies and the balance into Aim-traded businesses. There were seven management buy-outs in which Baronsmead VCT 2 on average invested/committed £1.0m alongside co-investment by the other three Baronsmead VCTs. In two of the large transactions, Americana and Language Line, the institutional clients of ISIS Equity Partners were also investors.

In line with the investment policy the four new investments in healthcare (two unquoted and two on Aim) were much smaller as they tend to be younger, higher risk companies with a greater technological dimension. This also applies to a lesser extent to the three new Aim investments into the IT sector.

Company	Location	Sector	Activity	Investment cost (£'000)
New unquoted investments				
Americana	Manchester	Consumer	Branded fashion clothing	698
Ardana	Cambridge	Healthcare	Drug delivery	350
Art Group	London	Media	Art content	1,576
ASSA	Tyne & Wear	Business services	Work place training	1,371
Language Line	London	Business services	Language services	785
Hawksmere	London	Business services	Training courses	942
Martin Audio	High Wycombe	Business services	Professional loudspeaker systems	1,045
Oxxon Pharmaccines	Oxford	Healthcare	Drug discovery	250
Spaform	Portsmouth	Consumer	Portable spa baths	844
Follow-on investments				
Air Music and Media	Berkhamsted	Media	Music copyright licensor	371
Huveaux	London	Media	Publishing group	53
i-documentsystems	London	IT	Document systems	200
Job Opportunities	Berkhamsted	Media	Free recruitment magazines	166
Medal Entertainment	London	Media	Audio-visual publishing	11
Top Ten	St Albans	Consumer	Bingo halls	477
New Aim-traded investments				
Cardpoint	Lytham	Business services	Operators of cash machines	114
Cobra Biomanufacturing	Keele	Healthcare	DNA/virus products	210
Micap	Warrington	Healthcare	Encapsulation	375
Polaron	Watford	IT	Electronic equipment	296
Quadnetics	Nottingham	Business services	CCTV security systems	296
Real Good Food	Devizes	Consumer	Chilled foods	620
Universe	Southampton	IT	Payment systems	195
Zoo digital	Sheffield	IT	DVD software	438
Total investments in period				£11,683

Manager's Review

Portfolio performance

The NAV per share grew steadily throughout the year, up some 23 per cent prior to the payment of dividends. The increase came from across the portfolio with unquoted companies growing 26 per cent and the Aim investees showing a 41 per cent uplift. Within the unquoted portfolio, Fat Face, kidsunlimited, RLA Media plus two new investments in Americana and Martin Audio showed strong progress combining growth in both revenues and operating profits. The ambitious plans of companies are not always met and provisions were made against four companies.

The realisations are scheduled below. The three profitable sales of Thomas Sanderson, AIMS Group and Blue 8, all to trade buyers, were reported at the interim stage. Over winter 2003/2004, there were firmer market conditions for the smaller quoted companies and £0.9m aggregate profit was taken from the sale of Premier Direct and part sale of four other investments.

Realisations		First investment date	Cost (£'000)	Proceeds (£'000)	Multiple return
Premier Direct	Market sales	1998	202	682	3.4
SDL	Part sale	1998	92	272	3.0
Thomas Sanderson	Trade sale	2001	667	1,689	2.5
Inter Link Foods	Part sale	1998	107	253	2.4
Landround	Part sale	1998	100	212	2.1
Blue 8	Trade sale	2001	319	647	2.0
AIMS Group	Trade sale	2002	1,000	1,924	1.9
NeuTec Pharma	Part sale	2002	89	168	1.9
R&R	Trade sale	2002	527	479	0.9
Giardino	Trade sale	2000	288	184	0.6
Conclusive Logic	Liquidation	2000	457	—	—
4:2:2	Liquidation	1999	1,322	—	—
Totals			5,170	6,510	1.3

The portfolio is now 54 strong and well diversified across the chosen sectors. The overall health of the portfolio has continued to improve as judged by the trend in profitability of the companies. 44 investees have increased or show steady operating profits (81 per cent) compared to 35 a year ago (75 per cent).

The top ten investments are now split with three each in consumer, business services and media. The tenth investment is in Searchspace, which provides anti-money laundering and fraud detection software and has successfully raised a further round of capital at higher valuations than the original cost. The IT portfolio is now spread across eleven investees and the healthcare across another eight. The outcome from these investments is more uncertain than for the other sectors and so the policy has been to build smaller but more investments in IT and healthcare.

Investor relations

The web site for Baronsmead VCT 2 is now easier to access via the Internet. www.baronsmeadvct2.co.uk contains a number of reports including not only the statutory reports and fact sheets but also the presentations at the annual general meeting and shareholder workshop. We intend to publish generic information concerning financial planning for VCT investors.

Outlook

The portfolio is likely to fluctuate between 50 to 60 companies. The underlying performance of the portfolio companies will dictate overall investment performance and so we continue to concentrate on being highly selective in both unquoted and Aim companies and remain an influential shareholder where possible.

Baronsmead VCT 2 has a well-diversified portfolio from which the intention is to satisfy both the increase in NAV per share and the level of realised reserves from which dividends can be paid.

David Thorp
Investment Manager
ISIS Equity Partners

17 May 2004

Investment Classification

Portfolio by Sector ...

Company Investments (excluding fixed interest portfolio)

Sector Analysis as at 31 March 2004

Consumer	27%
Business services	33%
IT support services	12%
Media	19%
Healthcare	9%

... and by Asset Classification

Total Investments

Market Analysis as at 31 March 2004

Unquoted – loan stock	25%
Unquoted – ordinary/preference shares	21%
AIM	31%
Fixed interest	10%
Net current assets	12%
Listed	1%

... and by Development Stage

by Value as at 31 March 2004

Early stage	18%
Late stage	82%

... and by Time Investments Held

by Value as at 31 March 2004

Less than 1 year	36%
Between 1 and 3 years	38%
Between 3 and 5 years	19%
Greater than five years	7%

Investment Portfolio

Portfolio Valuation at 31 March 2004

Company	Sector	Book Cost £'000	Valuation £'000	% of Total Assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by Other Funds*
Unquoted						
Fat Face	Consumer markets	50	1,883	4.5	5.7	34.3
Martin Audio	Business services	1,045	1,798	4.3	16.0	30.6
Art Group	Media	1,576	1,576	3.8	8.6	16.4
Americana	Consumer markets	698	1,515	3.6	4.0	32.4
RLA Media	Media	886	1,314	3.2	11.3	18.7
Brownsword	Business services	1,081	1,124	2.7	17.3	22.7
Searchspace	IT support services	500	1,037	2.5	1.3	9.2
kidsunlimited	Business services	481	1,024	2.5	4.1	46.9
Hawksmere	Business services	942	942	2.3	12.8	24.7
ASSA	Business services	1,371	925	2.2	7.6	14.6
Kondor	Consumer markets	1,000	900	2.2	3.7	21.8
Language Line	Business services	785	785	1.9	7.4	60.6
SpaForm	Consumer markets	844	760	1.8	12.5	27.5
Vectura	Healthcare	705	705	1.7	2.0	9.9
Job Opportunities	Media	952	643	1.5	7.8	46.7
Fretwell Downing	IT support services	527	589	1.4	4.3	20.2
BodyCare International	Consumer markets	1,000	500	1.2	11.7	23.3
Staffline	Business services	814	366	0.9	7.0	42.0
Ardana	Healthcare	350	350	0.8	1.1	1.4
Oxxon Pharmaccines	Healthcare	250	250	0.6	0.8	0.8
Imerge	IT support services	500	-	-	3.3	9.8
Total Unquoted		16,357	18,986	45.8		
OFEX						
Chemistry Communications	Business services	500	94	0.2	4.8	4.8
Total OFEX		500	94	0.2		
Quoted on AIM						
Huveaux	Media	711	1,480	3.6	3.9	5.0
Inter Link Foods	Consumer markets	522	1,323	3.2	2.8	2.2
Landround	Business services	467	908	2.2	3.9	4.0
The Real Good Food Group	Consumer markets	620	668	1.6	3.6	8.1
Air Music & Media	Media	575	667	1.6	4.2	7.1
Top Ten	Consumer markets	477	648	1.6	2.5	2.5
Murgitroyd Group	Business services	500	612	1.5	5.0	5.0
Fitzharding	Business services	470	537	1.3	1.3	2.7
i-documentsystems	IT support services	600	520	1.2	3.5	5.2
Medal Entertainment & Media	Media	371	510	1.2	4.1	6.2
Stagecoach Theatre Arts	Consumer markets	419	507	1.2	4.6	4.6
Micap	Healthcare	375	477	1.1	2.4	3.6
Biofocus	Healthcare	680	432	1.0	1.3	1.3
NeuTec Pharma	Healthcare	228	422	1.0	0.6	0.6
Zoo Digital	IT support services	438	417	1.0	1.5	4.2
ATA Group	Business services	355	393	0.9	4.6	4.8
VI Group	IT support services	500	378	0.9	6.2	8.0
Quadnetics	IT support services	296	369	0.9	1.0	2.3
Polaron	IT support services	296	296	0.7	1.5	3.5
Cardpoint	Business services	114	291	0.7	0.7	1.3
Universe Group	Business services	195	208	0.5	1.4	2.7
Conder Environmental	Business services	340	200	0.5	4.6	4.6
Cobra Biomanufacturing	Healthcare	210	175	0.4	1.3	-
Blooms of Bressingham	Consumer markets	320	138	0.3	1.4	1.4
Xpertise Group	Business services	296	121	0.3	2.6	4.4
Sirius Financial Solutions	IT support services	150	86	0.2	0.6	-
Capcon Holdings	Business services	137	78	0.2	1.7	3.4
Charterhouse Communications	Media	355	67	0.2	1.2	1.6
Highams Systems Services	IT support services	197	32	0.1	1.2	2.3
AorTech International	Healthcare	285	27	0.1	0.4	0.3
NMT Group	Healthcare	351	17	0.0	0.3	0.3
Total AIM		11,850	13,004	31.2		
Listed						
SDL	IT support services	181	476	1.1	0.7	1.7
Total Listed		181	476	1.1		
Fixed Interest						
UK Treasury 5% 07/06/04		2,105	2,154	5.2		
UK Treasury 7.5% 07/12/06		302	290	0.7		
UK Treasury 8.5% 07/12/05		223	213	0.5		
Total fixed interest		2,630	2,657	6.4		
OEICs & Unit Trusts						
OE Money Market 2		1,551	1,517	3.7		
Total OEICs		1,551	1,517	3.7		
Total investments		33,069	36,734	88.2		
Net current assets			4,909	11.8		
Total assets less current liabilities			41,643	100.0		

Provisions of £2,387,000 have been made against unquoted investments at 31 March 2004 (31 March 2003: £2,918,000; 31 March 2002: £3,550,000).

*Funds managed by ISIS Equity Partners plc.

Ten Largest Investments

Fat Face Limited *Havant*

First Investment:	February 2000	Year ended 31 May	2003	2002
Cost:	£50,000		£ million	£ million
Valuation:	£1,883,000	Sales	30.5	21.5
Valuation Basis:	Discounted price earnings	Profit before tax	2.3	1.7
<i>Fat Face is a multi-channel retailer supplying branded clothing and accessories to the outdoor active lifestyle market. The company raised £3.5 million to fund expansion and a share reorganisation.</i>		Retained profit	1.1	0.8
		Net assets	3.0	1.9

Martin Audio Limited *High Wycombe*

First Investment:	August 2003	Year ended 30 June	2003	2002
Cost:	£1,045,000			(15 months)
Valuation:	£1,798,000		£ million	£ million
Valuation Basis:	Discounted price earnings	Sales	9.5	9.9
<i>Martin Audio designs, assembles and markets high performance speaker systems for use in the concert and public entertainment markets, in the UK and overseas. It raised £3 million to support a management buy out.</i>		Profit before tax	1.0	1.2
		Retained profit/(loss)	-	(0.2)
		Net assets	1.3	1.3

The Art Group Limited *London*

First Investment:	October 2003	Year ended 31 December	2002	2001
Cost:	£1,576,000		£ million	£ million
Valuation:	£1,576,000	Sales	16.7	17.1
Valuation Basis:	Cost	Profit before tax	1.6	0.8
<i>The Art Group is a market leading publisher of art content on cards, posters and canvas prints sold to retailers in over 50 countries such as IKEA and Habitat. It raised £4.5 million to support a management buy-out.</i>		Retained profit	1.1	0.4
		Net assets	2.5	2.0

Americana Holdings Limited *Manchester*

First Investment:	July 2003	Year ended 31 December	2002	2001
Cost:	£698,000		£ million	£ million
Valuation:	£1,515,000	Sales	25.3	16.1
Valuation Basis:	Discounted price earnings	Profit before tax	4.9	2.1
<i>Americana is a fashion clothing business aimed at the youth market wholesaling and retailing under the brand names 'Bench' and 'Hooch'. It raised £6.4 million to support a management buy-out.</i>		Retained profit	3.4	1.4
		Net assets	5.4	2.0

Huveaux Plc *London*

First Investment:	March 2003	Year ended 31 December	2003	2002
Cost:	£711,000		£ million	£ million
Valuation:	£1,480,000	Sales	4.6	1.1
Valuation Basis:	Middle market price	Profit before tax	1.2	0.4
<i>Huveaux is a publishing and media group with a strategy to expand into the government and educational sectors. The Group raised £7.6 million to purchase Lonsdale Publishing and support the Group's buy and build strategy.</i>		Retained profit	0.3	0.1
		Net assets	21.6	6.1

Ten Largest Investments

Inter Link Foods PLC Blackburn

First Investment:	August 1998	Year ended 30 April	2003	2002
Cost:	£522,000		£ million	£ million
Valuation:	£1,323,000	Sales	51.4	46.0
Valuation Basis:	Middle market price	Profit before tax	3.0	2.7
		Retained profit	1.5	1.5
		Net assets	18.6	10.5

Inter Link Foods manufactures and sells own label cakes and pastry products to major retail groups. The company joined AIM in August 1998 and has made a number of acquisitions adding both production capacity and new clients. In 2001 it was voted AIM company of the year.

RLA Media Limited Bournemouth

First Investment:	December 2002	Year ended 31 May	2003*	2002
Cost:	£886,000		£ million	£ million
Valuation:	£1,314,000	Sales	4.5	9.4
Valuation Basis:	Discounted price earnings	Profit before tax	0.4	0.4
		Retained profit	0.1	0.1
		Net assets	5.3	1.4

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

*for the period 19 November 2002 to 31 May 2003

Brownsword Manchester

First Investment:	December 2002	Year ended 31 July	2003*	2002
Cost:	£1,081,000		£ million	£ million
Valuation:	£1,124,000	Sales	3.0	4.0
Valuation Basis:	Discounted price earnings	(Loss)/profit before tax	(0.1)	0.8
		Retained (loss)/profit	(0.1)	0.3
		Net assets	0.2	0.8

Brownsword provide outsourced road traffic accident investigation services to insurance companies. £4.0 million was raised as replacement capital.

*for the period 19 November 2002 to 31 July 2003

Searchspace London

First Investment:	April 2001	Year ended 31 March	2003	2002*
Cost:	£500,000		£ million	£ million
Valuation:	£1,037,000	Sales	11.9	6.3
Valuation Basis:	Discounted price earnings	Loss before tax	(4.3)	(11.7)
		Retained loss	(4.0)	(10.7)
		Net liabilities	(14.3)	(10.3)

Searchspace is a developer of intelligent enterprise system software. £10 million of institutional monies was raised for further development.

*for the period 19 January 2001 to 31 March 2002

kidsunlimited Limited Wilmslow

First Investment:	June 2001	Year ended 30 April	2003	2002
Cost:	£481,000			(10 months)
Valuation:	£1,024,000		£ million	£ million
Valuation Basis:	Comparable sector earnings	Sales	13.8	9.2
	multiple plus capitalised interest	Loss before tax	(1.3)	(1.6)
		Retained loss	(1.3)	(1.6)
		Net liabilities	(2.3)	(1.1)

kidsunlimited is a provider of day care facilities to children under five years old. The company operates a combination of owned nurseries and those located within the workplace. It raised £4 million to fund expansion and a share reorganisation.

Board of Directors

as at 31 March 2004

Clive Parritt (Chairman)

(age 61) is a chartered accountant with over 25 years' experience of providing strategic, financial and commercial advice to medium sized businesses. Until February 2001 he was chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is a member of the Council of the Institute of Chartered Accountants in England and Wales, a Director of Herald Investment Trust plc and chairman of BG Consulting Group Limited. He is also a director of The Business Exchange plc (a leading independent corporate finance house where he was chief executive until July 2003). Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses.

Godfrey Jillings

(age 63) is a non-executive Director/Chairman of several fast growth unquoted companies. He held a range of senior executive appointments at NatWest including responsibility for their retail stockbroking, unit trust and PEP operations. He was a CEO of FIMBRA, the regulatory body for IFAs and a Deputy CEO of its successor, the PIA (1990-1994). He was deputy Chairman of DBS plc (1996-2002), the leading IFA network prior to its take-over and is also a Director of Baronsmead VCT plc.

Gillian Nott

(age 58) joined the Board as a Director in 1998. Gill has in-depth experience of private investors as Chief Executive of ProShare (1994-99). Previously she was responsible for the private equity portfolios at BP and latterly has been a non-executive Director of investment trusts at Foreign & Colonial and Martin Currie. Gill is Chairman of Baronsmead VCT and a non-executive Director of Baronsmead VCT 3. She has been a board member of the FSA since 1998 and a non-executive Director of several venture-backed investees.

Nicholas Timpson

(age 63) was the founder, Chairman and Managing Director of Furnitureland Holdings plc. He is Chairman of Whiteweed Furniture Ltd and a Director of The Vestey Group Ltd. He brings to the Board long experience in the development of private companies. Before founding Furnitureland Holdings plc in 1973, he worked as a Management Consultant for McKinsey & Co.

As a fully listed Company, Baronsmead VCT 2 is required to comply with the Combined Code relating to its Corporate Governance. This Code requires the Company to be headed by an effective Board of Directors who lead and control the Company's affairs.

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

Report of the Directors

Results and Dividends

The Directors submit the sixth Report and Accounts of the Company for the year ended 31 March 2004.

	£'000
Profit on ordinary activities after taxation	2,115
Interim capital dividend of 4.7p per share paid on 4 July 2003	(1,920)
Second interim capital dividend of 0.6p per ordinary share paid on 12 December 2003	(246)
Interim revenue dividend of 0.6p per share paid on 12 December 2003	(246)
Third interim capital dividend of 2.0p per share paid on 26 March 2004	(818)
Second interim revenue dividend of 0.6p per share paid on 26 March 2004	(246)
Transferred from profit and loss account	(1,361)

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Act 1985. The Directors have managed and intend to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988 and the Company has received full approval as a Venture Capital Trust from the Inland Revenue for the year to 31 March 2003. A review of the Company's business during the period is contained in the Chairman's Statement and Managers' Review.

Issue and Buy-Back of Shares

During the year the Company issued 837,297 ordinary shares and raised proceeds of £771,000. The Company bought back 845,000 ordinary shares (being 2.1 per cent of closing issued share capital) during the year, at a cost of £724,000.

Directors

Mrs G Nott retires at the sixth Annual General Meeting of the Company and, being eligible, offers herself for re-election.

The Directors who held office at the end of the year, and their interests in the ordinary shares of the Company were:

		31 March 2004 Ordinary 10p Shares	31 March 2003 Ordinary 10p Shares
Clive A Parritt	Beneficial and family	27,652	26,617
Godfrey F Jillings	Beneficial and family	144,651	123,985
Gillian Nott	Beneficial and family	10,000	10,000
Nicholas G L Timpson	Beneficial and family	250,000	250,000

There have been no other changes in the holdings of the Directors between 31 March and 17 May 2004.

No Director has a service contract with the Company.

All Directors are members of the Audit, Remuneration and Nomination Committees. Mr G Jillings and Mrs G Nott are Directors of Baronsmead VCT plc and Mrs G Nott is also a Director of Baronsmead VCT 3 plc which are both managed by ISIS Equity Partners plc.

Corporate Governance

The Board consists solely of independent Non-Executive Directors. The Board has a Company Secretary who also attends Board Meetings which are held five times a year. The Manager attends all formal Board Meetings. Informal meetings with management are also held between Board Meetings as required. The Company Secretary provides full information on the Company's assets, liabilities and other relevant information to the Board in advance of each Board Meeting. The Board has appointed Mr Timpson as Senior Non-Executive Director in accordance with the Combined Code of Best Practice ('the Code').

The Audit Committee comprises all members of the Board. The Committee operates within clearly defined terms of reference. The Committee meets twice a year to review the Interim Financial Statement, Annual Report and Accounts and the terms of appointment of the auditors together with their remuneration.

The Remuneration and Nomination Committees comprise all Directors and have written terms of reference. The Remuneration Committee is responsible for reviewing the terms of the Investment Manager's contract. The full Board sets the Directors' remuneration using external comparisons and advice. The Nomination Committee reviews the composition and balance of the Board and would make nominations in the event of a vacancy.

A management agreement between the Company and its Manager sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors. The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Apart from the matters referred to in the following paragraph the Company has complied with the Code throughout the year under review.

In view of its non-executive nature and the requirements of the Articles of Association that all Directors retire by rotation at the Annual General Meeting, the Board considers that it is not appropriate for the Directors to be appointed for a specific term

Report of the Directors

as recommended by the Code. There is no formal training programme for Directors. Full details of duties and obligations are provided at the time of appointment and are supplemented by further details as requirements change.

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

The Board has considered the provisions of the new Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the new Code') which are effective for reporting years beginning on or after 1 November 2003. The Board's intention is to apply the provisions of the new Code, as far as practicable, during the year ended 31 March 2005.

Internal Control

The Board is responsible for ensuring that the Company is managed so that risks to its profitability and assets are minimised. In the pursuit of profit for shareholders it is impossible to eliminate risk. The Board has considered specifically the high level risks which face the Company in areas such as investment management, custody of assets and regulatory matters to ensure that these are fully recognised in the operating methods of the Managers. Furthermore, to fulfil its obligations for maintaining an effective system of internal control, the Board has established an ongoing formal process to ensure that risk exposure is reviewed thoroughly.

The process is based principally on a review of the Managers' existing risk-based approach to internal control. The key functions carried out by the Managers are identified, the individual activities undertaken within those functions are reviewed and the risks associated with each activity as well as the controls employed to minimise those risks are assessed. The resulting matrix is updated by the Managers on a rolling basis and the Board is provided with reports highlighting all material changes to the risk ratings and confirming the action, which has, or is, being taken. A formal annual review of these procedures is carried out by the Board and this includes consideration of FRAG 21 and similar reports issued by the Managers and other service providers. A second meeting in the year receives formal updates on any material changes in the risk environment and the action taken, and in addition the Board has instituted a review of major risks at each meeting.

These review procedures have been in place throughout the year and up to the date of approval of the Annual Report and the Board is satisfied with the effectiveness of internal controls. By their nature these procedures can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company at each board meeting. It also reviews the Company's

activities since the previous board meeting to ensure that the Managers adhere to the agreed investment policy and approved investment guidelines. If necessary, changes to such policy and guidelines are agreed with the Managers.

The Board has reviewed the need for an internal audit function. The Board has concluded that the systems and procedures employed by the Managers, including the Managers' own internal audit function and the work carried out by the Company's external auditors, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Relations with Shareholders

The Company welcomes the views of Shareholders, and the Annual General Meeting of the Company provides a forum both formal and informal for investors to meet and discuss issues with Directors of the Company. Details of the resolutions to be proposed at the Annual General Meeting on 16 June 2004 can be found in the Notice of Meeting on page 30.

Management

Baronsmead Fund Management 2 Limited ('the Manager') manages the investments in unquoted UK companies for the Company. ISIS Equity Partners plc has undertaken to ensure the performance of the obligations of the Manager under the management agreement and will provide the Manager with the necessary resources and personnel to fulfil its obligations. The Manager will also provide or procure the provision of secretarial, administrative and custodian services to the Company. The management agreement was for an initial fixed term of three years ending on 2 March 2001 and may now be terminated by either party on one year's notice to expire at the end of any calendar month. Under the management agreement, the manager receives a fee of 2 per cent per annum of the net assets of the Company. In addition, the Manager receives an annual administration fee of £30,000 (adjusted for movements in the Retail Prices Index) and a variable fee of 0.125 per cent on net assets over £5,000,000, subject to annual review. Annual running costs are capped at 3.5 per cent of the net assets of the Company, any excess being refunded by the Manager by way of an adjustment to its management fee.

Performance Incentive

The Manager may become entitled to receive a performance fee from the Company calculated by reference to cash distributions made to Shareholders. No performance fee will be paid until after the end of the fifth accounting period of the Company and until cumulative cash distributions to Shareholders exceed a return equivalent to simple interest on the initial subscription

Report of the Directors

price of £1 at a rate of 7.2 per cent per annum, calculated up to the last day of the relevant accounting period. A performance fee will be paid for the fifth and each subsequent accounting period of 20 per cent of the amount by which cumulative distributions exceed this hurdle rate.

The Board believes that it is important for the objectives of the shareholders and the remuneration of the manager to be closely aligned. For that reason we consider that it is more appropriate for the remuneration of the manager to bear a direct relationship to the overall performance of the assets under management.

It is proposed therefore to base the manager's performance fee on the increase in the total return (net asset value plus dividends reinvested) rather than solely on the level of dividends paid.

Achieving a consistent return of 2 per cent above base rate is a significant challenge in the private equity market. The proposal requires the manager to exceed this hurdle in each separate accounting period using the NAV total return at 1 April of each year as a base. If successful the Manager will then receive 20 per cent of the excess subject to certain limits.

The EGM circular will contain full details of the proposed change to the Manager's performance fee being recommended by the Board. If approved the revised basis should take effect from 1 July 2004.

ISIS Equity Partners plc – Arrangement Fees

During the year to 31 March 2004, ISIS Equity Partners plc received net income of £214,000 (2003: £79,000) from investee companies in connection with arrangement fees, net of abort costs.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP (PwC) to advise it on compliance with VCT requirements. PwC reviews new investment opportunities, as appropriate, and reviews regularly the investment portfolio of the Company. PwC works closely with the Manager but reports directly to the Board.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms. The Company did not have any trade creditors at the year end.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

Auditors

PKF have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

Substantial Interests

At 17 May 2004 the Company was not aware of any beneficial interests exceeding 3 per cent of the issued Ordinary Share capital.

Post Balance Sheet Event

On 2 April 2004 the Company issued 881,768 ordinary shares as part of an offer for subscription to existing shareholders. These shares were issued at a price of 105p per share.

Increase in Share Capital

Resolution 6 increases the authorised ordinary share capital of the Company to 80 million shares and is required so that the Directors may continue to offer existing and new shareholders the opportunity to invest in the Company.

The Board intends to seek shareholder authority to raise £20 million additional share capital. The EGM circular, which will be forwarded shortly to shareholders, will set out, more fully, the details of the proposed new offer for subscription.

Directors' Authority to Allot Shares and to Disapply Pre-emption Rights

The authorities proposed under Resolutions 7 and 8 are required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally and will not dilute their existing interest. Any such issues would only be made at a price greater than the net asset value per share and therefore would increase the assets underlying each share. The issue proceeds would be available for investment in line with the Company's investment policy and may be used, in part, to purchase ordinary shares in the market. Resolution 7 renews the Directors' authority to issue ordinary shares. This would enable the Directors, until 15 June 2009, to allot up to 38,055,883 ordinary shares (representing approximately 90.7 per cent of the Company's issued share capital as at 17 May 2004).

Resolution 8 renews and extends (see Dividend Reinvestment below) the Directors' authority to allot equity securities for cash

Report of the Directors

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 the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to issue ordinary shares for cash without pre-emption rights applying by way of offer to existing shareholders, under the Dividend Reinvestment Scheme, or otherwise up to a maximum of 38,055,883 ordinary shares (representing approximately 90.7 per cent of the Company's issued share capital as at 17 May 2004). 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.

Dividend Reinvestment

The Directors offer to Shareholders the opportunity to reinvest their dividends by subscribing for new ordinary shares in the Company.

The substantial tax reliefs available to investors who subscribe to VCTs should be available to qualifying investors reinvesting their dividends in these new ordinary shares. Such reliefs will not be available in any tax year where a Shareholder has already subscribed £200,000 for venture capital trust shares. In the event of the Company being wound up within five years of Shares being issued (under dividend reinvestment or otherwise) then Shareholders may be required to repay their initial income tax relief. This period falls to three years in respect of shares issued on or after 6 April 2000.

The extension of the Directors' authority to allot equity securities for cash without pre-emption rights applying referred to above (see Directors' Authority to Disapply Pre-emption Rights) will enable the Directors to allot ordinary shares when dividends are reinvested.

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 ordinary share capital expires at the end of the Annual General Meeting and Resolution 9 seeks renewal of such authority until the Annual General Meeting in 2005 (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 (which currently set a maximum equal to 5 per cent above the average of the market values of those shares for the five business days before the shares are purchased). 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. The funding required to purchase shares would be met either from available cash resources, including borrowing facilities, or from selling investments in the portfolio. Any shares repurchased under these authorities would be cancelled.

By Order of the Board,



Gary Fraser
for ISIS Asset Management plc
Secretary
80 George Street
Edinburgh EH2 3BU
17 May 2004

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report'.

Directors' Fees

The Board consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

The Board concluded following the review of the level of Directors' fees for the forthcoming year that the amounts should be increased by £1,500 for the Chairman and £1,000 for other Directors.

The Remuneration Committee is C Parritt, G Jillings, G Nott and N Timpson. As the Company has no executive Directors, the Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 31 March 2005 and subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. The present limit is £50,000 per annum (as varied by the UK Retail Prices Index from year to year) and the approval of shareholders in a general meeting would be required to change this limit. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

Director	Date of original appointment	Due date for Re-election
C Parritt	18/02/1998	AGM 2005
G Jillings	18/02/1998	AGM 2006
G Nott	18/02/1998	AGM 2004
N Timpson	18/02/1998	AGM 2005

The terms of Directors' appointments now provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for

re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five financial years ending 31 March 2004, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a widely understood broad equity market index against which investors can measure the relative performance of the fund. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Share Price and The FTSE All-Share Index Performance Graph

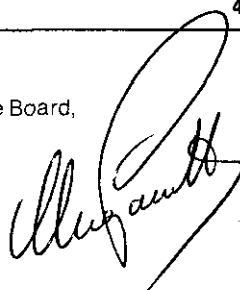
Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

	Fees 2004 £	Fees 2003 £
C Parritt	15,000	15,000
G Jillings	10,000	10,000
G Nott	10,000	10,000
N Timpson	10,000	10,000
Total	45,000	45,000

On behalf of the Board,

C A Parritt
Chairman
17 May 2004



Profit and Loss Account

for the year ended 31 March 2004

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Gains/(losses) on investments	8	–	1,920	1,920	–	(267)	(267)
Income	2	1,256	–	1,256	1,809	–	1,809
Investment management fee	3	(195)	(583)	(778)	(193)	(580)	(773)
Other expenses	4	(284)	–	(284)	(295)	–	(295)
Profit/(loss) on ordinary activities before taxation		777	1,337	2,114	1,321	(847)	474
Taxation on ordinary activities	5	(131)	132	1	(349)	187	(162)
Profit/(loss) on ordinary activities after taxation		646	1,469	2,115	972	(660)	312
Dividends paid	6	(492)	(2,984)	(3,476)	(858)	(2,004)	(2,862)
Retained gains/(losses) transferred to/(from) reserves	12	154	(1,515)	(1,361)	114	(2,664)	(2,550)
Earnings/(loss) per Ordinary 10p Share	7	1.58p	3.58p	5.16p	2.37p	(1.61)p	0.76p

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2004

	Notes	2004 Revenue £'000	2004 Capital £'000	2004 Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
Profit/(loss) on ordinary activities after taxation		646	1,469	2,115	972	(660)	312
Unrealised gain/(loss) on revaluation of investments	12	–	6,306	6,306	–	(1,926)	(1,926)
Total recognised gain/(loss) during the period		646	7,775	8,421	972	(2,586)	(1,614)
Total recognised gain/(loss) per ordinary share	7	1.58p	18.96p	20.54p	2.37p	(6.31)p	(3.94)p

Note of Historical Cost Profits and Losses

for the year ended 31 March 2004

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	2,114	474
Realisation of revaluation (losses)/gains of previous years	(662)	303
Historical cost profit on ordinary activities before taxation	1,452	777
Historical cost loss for the period retained after taxation and dividends	(2,023)	(2,247)

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

The accompanying notes are an integral part of this statement.

Balance Sheet

As at 31 March 2004

	Notes	2004 £'000	2003 £'000
Fixed assets			
Investments	8	36,734	26,645
Current assets			
Debtors	9	370	533
Cash at bank and on deposit		4,856	9,889
		5,226	10,422
Creditors (amounts falling due within one year)	10	(317)	(416)
Net current assets		4,909	10,006
Total assets less current liabilities		41,643	36,651
Capital and reserves			
Called-up share capital	11	4,088	4,089
Share premium account	12	745	57
Other reserves:			
Revaluation reserve	12	3,665	(3,472)
Capital redemption reserve	12	100	16
Profit and loss account	12	33,045	35,961
Equity shareholders' funds	13, 14	41,643	36,651
Net asset value per Ordinary Share – Basic	13	101.88p	89.65p

The financial statements on pages 18 to 28 were approved by the Board of Directors on 17 May 2004 and were signed on its behalf by:



CLIVE A PARRITT (Chairman)

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

For the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Operating activities			
Investment income received		1,249	2,251
Deposit interest received		141	50
Underwriting commission received		–	2
Investment management fees		(762)	(791)
Other cash payments		(251)	(311)
Net cash inflow from operating activities	16	377	1,201
Taxation			
Net taxation paid		(163)	(217)
Capital expenditure and financial investment			
Purchase of investments		(13,462)	(10,914)
Disposal of investments		11,712	20,661
Net cash (outflow)/inflow from capital expenditure and financial investment		(1,750)	9,747
Equity dividends paid		(3,476)	(3,477)
Net cash (outflow)/inflow before financing		(5,012)	7,254
Financing			
Issue of Ordinary Shares		687	130
Expenses of the issue		–	(13)
Buy-back of Ordinary Shares		(708)	(234)
Net cash outflow from financing		(21)	(117)
(Decrease)/increase in cash		(5,033)	7,137
Reconciliation of net cash flow to movement in net cash			
(Decrease)/increase in cash in the year		(5,033)	7,137
Net cash at 1 April 2003/1 April 2002		9,889	2,752
Net cash at 31 March 2004/31 March 2003	15	4,856	9,889

The accompanying notes are an integral part of these statements

Notes to the Accounts

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

(a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and on the assumption that the Company maintains VCT status.

The Company is no longer an investment company as defined by Section 266 of the Companies Act 1985, as investment company status was revoked on 10 March 2003 in order to permit the distribution of capital profits.

The financial statements therefore include a statutory Profit and Loss Account and a Statement of Total Recognised Gains and Losses in accordance with Schedule 4 of the Companies Act 1985 and Financial Reporting Standard 3 "Reporting Financial Performance". These statements differ from the Statement of Total Return usually presented by venture capital trust companies in the following respects:

- Gains and losses on disposal of investments and permanent diminutions in value are included in the profit and loss account; and
- *Unrealised gains and losses are taken direct to the revaluation reserve and included in the Statement of Total Recognised Gains and Losses.*

(b) Valuation of investments

In respect of quoted investments the British Venture Capital Association (BVCA) have stated that VCTs should have regard to Generally Accepted Accounting Practice in the valuation of investments and accordingly these are valued at mid market price, in accordance with the Investment Trust Companies SORP. The Directors consider the need for discounts as appropriate.

Unquoted investments are valued by the Directors in accordance with the following rules, which are consistent with the British Venture Capital Association (BVCA) guidelines:

1. Following the issue of new BVCA guidelines, investments are to be held at cost for a limited period only and not necessarily for a full 12 month period as has been the case in the past. In future the Company intends to value new investments on a price earnings basis when audited financial statements are available within the first 12 months of the investment being made.
2. *Investments outwith the initial limited holding period are valued using a price earnings ratio (at a significant discount to an appropriate stock market prospective price earnings ratio) in*

the absence of overriding factors. Where such factors apply, alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost, or a net asset basis.

(c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful.

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

Income from fixed interest securities and deposit interest are *included on an accruals basis.*

(d) Expenses

All expenses are accounted for on an accruals basis.

(e) Revenue/capital

The revenue column of the profit and loss account includes all income and expenses. The capital column accounts for the realised profit and loss on investments and the proportion of management fee charged to capital.

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Notes to the Accounts

2. Income

	2004 £'000	2003 £'000
Income from investments		
UK franked	303	151
UK unfranked	812	1,626
	1,115	1,777
Other income		
Deposit interest	141	30
Underwriting commission	—	2
Total income	1,256	1,809
Total income comprises:		
Dividends	303	151
Interest	953	1,656
Other income	—	2
	1,256	1,809
Income from investments:		
Listed UK	495	1,352
Unlisted UK	620	425
	1,115	1,777

3. Investment management fee

	2004 £'000	2003 £'000
Investment management fee	778	773

For the purposes of the revenue and capital columns in the profit and loss account, the management fee has been allocated 25 per cent to revenue and 75 per cent to capital.

The management agreement may be terminated by either party giving 12 months' notice of termination. The manager, ISIS Equity Partners plc, receives a fee of 2 per cent per annum of the net assets of the Company. The manager may become entitled to a performance fee from the Company, if at the end of the fifth accounting period the cash distributions to shareholders exceed a return equivalent to simple interest on the initial subscription price of £1 at a rate of 7.2 per cent per annum. The fee which will be paid for the fifth and each subsequent accounting period is 20 per cent of the amount by which cumulative distributions exceed this hurdle rate.

ISIS Asset Management plc receives an annual secretarial fee of £30,000 (uplifted annually for movements in the retail prices index) and a variable fee of 0.125% on net assets over £5,000,000 subject to annual review.

Notes to the Accounts

4. Other expenses

	2004 £'000	2003 £'000
Directors' fees	45	45
Remuneration for the auditors and their associates:		
– audit	10	8
– other services to the Company	3	2
Other	226	240
	284	295

The Chairman receives £15,000 per annum (2003: £15,000). Each of the other Directors receives £10,000 per annum (2003: £10,000).

Included in other expenses for the year to 31 March 2004 are secretarial fees of £80,000 (2003: £73,000).

Charges for other services provided by the auditors in the year ended 31 March 2004 were in relation to tax compliance work. The Directors consider that the auditors were best placed to provide that service. The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained.

5a. Taxation on ordinary activities

	2004 £'000	2003 £'000
UK corporation tax	–	164
Adjustment in respect of previous periods	1	(2)
	1	162

5b. Factors affecting tax charge for the year

The profit and loss account tax charge for the year is lower than the standard rate of corporation tax in the UK for an investment company (30 per cent). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	2,114	474
Corporation tax at a standard rate of 30 per cent	634	142
Effects of:		
Non-taxable dividend income	(91)	(45)
Non-taxable realisation (gains)/losses	(575)	80
Excess expenses not utilised	43	–
Small companies rate relief	(11)	(13)
Prior period adjustment	1	(2)
Current tax year charge (note 5a)	1	162

6. Dividends

	2004 £'000	2003 £'000
Dividends on equity shares:		
– ordinary – interim capital dividend 4.70p per share on 40,847,594 shares paid on 4 July 2003 (2002: interim 1.0p on 40,949,657 shares)	1,920	409
– ordinary – second interim capital dividend 0.6p per share on 40,989,300 shares paid on 12 December 2003 (2003: second interim 1.1p on 40,906,722 shares)	246	450
– ordinary – interim 0.6p per share on 40,989,300 shares paid on 12 December 2003	246	–
– ordinary – third interim capital dividend 2.0p per share on 40,788,018 shares paid on 26 March 2004 (2003: interim capital 4.9p per share on 40,906,722 shares)	818	2,004
– ordinary – second interim 0.6p per share on 40,788,018 shares paid on 26 March 2004	246	–
– over provision in prior year	–	(1)
	3,476	2,862

Notes to the Accounts

7. Earnings per Ordinary Share

	2004 p	2003 p
Basic	5.16	0.76
Total recognised gain/(loss)	20.54	(3.94)

Basic earnings per ordinary share is based on the net profit on ordinary activities after taxation of £2,115,000 (2003: £312,000) and on 40,996,280 (2003: 40,961,609) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The total recognised gains and losses per share is based on the total gains recognised for the period of £8,421,000 (2003: loss £1,614,000) and on 40,996,280 (2003: 40,961,609) shares, being the weighted average number of ordinary shares in issue during the period.

8. Investments

	2004 £'000	2003 £'000
Listed investments	476	343
Quoted on the Alternative Investment Market	13,004	6,625
Quoted on the OFEX	94	310
Unquoted investments	18,986	12,212
Listed fixed interest investments	4,174	7,155
Total investments	36,734	26,645

	Listed £'000	Traded on AiM £'000	Traded on OFEX £'000	Unquoted £'000	Listed fixed interest £'000	Total £'000
Opening cost	705	8,447	500	13,163	7,529	30,344
Opening unrealised gains/(losses)	(362)	(1,822)	(190)	(951)	(374)	(3,699)
Opening market value	343	6,625	310	12,212	7,155	26,645
Movements in the year:						
Purchases at cost	1	3,659	—	8,027	1,775	13,462
Sales – proceeds	(272)	(1,499)	—	(5,217)	(4,611)	(11,599)
– realised gains/(losses) on sales	196	938	—	835	(49)	1,920
Transfer unrealised gains/(losses) realised during the year	(14)	(225)	—	(385)	(38)	(662)
Transfer of listings	(435)	435	—	—	—	—
Unrealised changes in value of investments	657	3,071	(216)	3,514	(58)	6,968
Closing valuation	476	13,004	94	18,986	4,174	36,734
Closing cost	181	11,850	500	16,357	4,181	33,069
Closing unrealised gains/(losses) on investments	295	1,154	(406)	2,629	(7)	3,665
Closing market value	476	13,004	94	18,986	4,174	36,734

	2004 £'000	2003 £'000
Equity shares	20,833	10,548
Preference shares	1,539	1,443
Fixed income securities	14,362	14,654
	36,734	26,645

Notes to the Accounts

9. Debtors

	2004 £'000	2003 £'000
Prepayments and accrued income	216	350
Other debtors	154	183
	370	533

10. Creditors (amounts falling due within one year)

	2004 £'000	2003 £'000
Amounts due to brokers	36	20
Taxation	—	164
Management and secretarial fees due to the managers	227	202
Other creditors	54	30
	317	416

11. Called-up share capital

	2004 £'000
Authorised:	
50,500,000 Ordinary Shares of 10p each	5,050
Allotted, called-up and fully-paid:	
40,881,722 Ordinary Shares of 10p each at 31 March 2003	4,089
330,872 Ordinary Shares of 10p each issued on 1 April 2003	33
276,706 Ordinary Shares of 10p each issued on 7 July 2003	28
73,718 Ordinary Shares of 10p each issued on 16 December 2003	7
156,001 Ordinary Shares of 10p each issued on 26 March 2004	15
845,000 Ordinary Shares of 10p each bought back during the year	(84)
40,874,019 Ordinary Shares of 10p each at 31 March 2004	4,088

Notes to the Accounts

12. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 31 March 2003	57	16	(3,472)	35,961
330,872 Ordinary Shares of 10p each during April 2003	265	—	—	—
276,706 Ordinary Shares of 10p each during July 2003	220	—	—	—
73,718 Ordinary Shares of 10p each during December 2003	64	—	—	—
156,001 Ordinary Shares of 10p each during March 2004	139	—	—	—
Arising from shares bought back during the year	—	84	—	(724)
Transfer of prior year's revaluation to profit and loss account	—	—	662	(662)
Other reserve transfers	—	—	169	(169)
Unrealised changes in value of investments	—	—	6,306	—
Retained losses for the year	—	—	—	(1,361)
At 31 March 2004	745	100	3,665	33,045

13. Net asset value per share

The net asset value per share and the net asset values attributable to the Ordinary Shares at the year end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Attributable net asset value per share		Attributable net asset value	
	2004 pence	2003 pence	2004 £'000	2003 £'000
Ordinary Shares (basic)	101.88	89.65	41,643	36,651

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	Ordinary Shares (basic) £'000
Total net assets attributable at beginning of the year	36,651
Capital subscribed	771
Expenses of issue and buy-back	(4)
Share capital bought back	(720)
Unrealised changes on revaluation of investments	6,306
Losses for the period	(1,361)
	41,643

Basic net asset value per Ordinary Share is based on £41,643,000 (2003: £36,651,000) net assets, and on 40,874,019 (2003: 40,881,722) Ordinary Shares, being the number of Ordinary Shares in issue at the year-end.

Notes to the Accounts

14. Reconciliation of movements in shareholders' funds

	2004 £'000
Opening shareholders' funds	36,651
Movements from share issues and buy backs	47
Unrealised changes on revaluation of investments	6,306
Losses for the period	(1,361)
Closing shareholders' funds	41,643

15. Analysis of changes in cash

	At 1 April 2003 £'000	Cash Outflow £'000	At 31 March 2004 £'000
Cash at bank and in hand	9,889	(5,033)	4,856

16. Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	2,114	474
(Profit)/loss on realisation of investments	(1,920)	267
Decrease in prepayments and accrued income	134	494
Increase/(decrease) in other creditors	49	(34)
Net cash inflow from operating activities	377	1,201

17. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees and financial commitments of the Company as at 31 March 2004.

18. Post balance sheet event

Since 31 March 2004, the Company has issued 881,768 ordinary shares at a price of 105p per share through an offer for subscription. This offer for subscription closed on 2 April 2004.

Notes to the Accounts

19. Significant interests

There are no interests of 20 per cent or more of any class of share capital.

Further information on the significant interests is disclosed on page 9.

20. Interest rate risk

Fixed rate

	2004			2003		
	Total fixed portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed interest securities	2,657	5.5	204	7,155	6.09	409

Floating rate

When the Company retains cash balances the majority of cash is ordinarily held on interest bearing deposit accounts and where appropriate, within an interest bearing money market open ended investment company (OEIC). The Company does, however, place cash on non-interest bearing deposit account from time to time to ensure compliance with relevant VCT legislation. The Benchmark rate which determines the interest payments received on interest bearing cash balances held is the bank base rate which was 4.0 per cent as at 31 March 2004.

21. Market price risk

The management of market price risk is part of the fund management process and is typical of equity investment. The portfolio is managed in the awareness of such risk and results from detailed and continuing analysis with an objective of maximising overall returns to shareholders. Investment in unquoted and AiM listed companies, by its nature, involves a higher degree of risk than investment in the main market. These securities may be more difficult to realise. Further information on the investment portfolio is set out on pages 9 to 11.

22. Financial instruments

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on the Alternative Investment Market.

Fixed asset investments held (see note 8) are valued at middle market prices, cost or in accordance with the British Venture Capital Association guidelines (see note 1). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS13.

Directors' Responsibility Statement

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report, Directors' Remuneration Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Independent Auditors' Report

Independent Auditors' Report to the Members of Baronsmead VCT 2 plc

We have audited the financial statements of Baronsmead VCT 2 plc for the year ended 31 March 2004 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Financial Highlights, the Chairman's Statement, the Managers' Review, the Directors' Report and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2004 and of its profit for the year then ended; and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF 
Registered Auditors
London
17 May 2004

Notice of Annual General Meeting

Notice is hereby given that the Sixth Annual General Meeting of Baronsmead VCT 2 plc will be held at the offices of ISIS Asset Management plc, 100 Wood Street, London EC2V 7AN, on 16 June 2004 at 11.00 am for the following purposes:

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

Ordinary Business

1. That the Report and Accounts for the year to 31 March 2004 be received.
2. That the Directors' Remuneration Report for the year to 31 March 2004 be approved.
3. That Mrs G Nott, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
4. That PKF, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.
5. That in Article 101 of the Company's Articles of Association, the references to Directors' remuneration of £50,000 be amended to £75,000.

Special Business

Ordinary Resolutions

6. That the authorised share capital of the Company be increased to £8,000,000 by the creation of 29,500,000 additional shares of 10p each.
7. That:
 - (a) the Directors of the Company (the "Directors") be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £3,805,588 during the period commencing on the passing of this resolution and expiring on 15 June 2009 (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry; and
 - (b) all previous authorities given to the Directors in accordance with section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions

8. That subject to the passing of resolutions 6 and 7 set out in the notice of this meeting:
 - (a) the Directors of the Company (the "Directors") be and are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities for cash pursuant to the authority given in accordance with section 80 of the Act by that resolution as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities in connection with:
 - (i) an offer of securities, open for acceptance for a period fixed by the Directors, to holders of ordinary shares of 10p each in the Company and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);
 - (ii) the dividend reinvestment plan as more particularly described in the Report of Directors;
 - (iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £3,805,588; 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;
 - (b) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.
9. That the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 10p each in the Company ("Ordinary Shares"), provided that:
 - (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 6,287,423;
 - (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 be not more than 5 per cent above the average of the market values of the Ordinary Shares for the five business days before the purchase is made;
 - (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the Company in 2005 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.

By Order of the Board

Gary Fraser

for ISIS Asset Management plc, Secretary

80 George Street

Edinburgh EH2 3BU

17 May 2004

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, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0JQ at least 48 hours before the meeting. A Proxy Card for use by ordinary shareholders is enclosed. Completion of the Proxy Card will not prevent a shareholder from attending the meeting and voting in person.

Shareholder Information

Dividends

Interim dividends are ordinarily paid to shareholders in December. Final dividends are ordinarily paid to shareholders in July. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a Mandate Form for this purpose. Mandates can be obtained by telephoning the Company's registrar, Northern Registrars Limited.

Dividend Reinvestment Scheme

The Company operates a dividend reinvestment scheme to enable shareholders to buy shares using their dividends. The shares issued via this scheme are new shares and attract VCT tax reliefs for eligible investors. Details can be obtained from the Company's Investor Relations Manager, Michael Probin.

Share Price

The Company's Ordinary Shares are listed on the London Stock Exchange. The mid-price of the Company's Ordinary 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 VCT 2 plc are:

- Teather & Greenwood
- UBS Warburg

Please call Michael Probin if you or your adviser have any questions about this process.

Financial Calendar

16 June 2004	Annual General Meeting
August 2004	VCT factsheet sent to shareholders
November 2004	Posting of interim report
December 2004	Interim dividend paid

VCT Workshops

A Workshop for shareholders and their advisers will be held at the offices of the Investment Managers, 100 Wood Street, London EC2V 7AN, at 1.30 pm on 16 June 2004 following the Annual General Meeting.

Please call Michael Probin if you or your adviser would wish to attend a workshop.

Shareholder Information

Ordinary Shares

There were 2,426 holders of Ordinary Shares as at 31 March 2004. Their shareholdings are analysed as follows:

Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
Over 100,000	18	0.7	3,505,074	8.6
50,001–100,000	99	4.1	7,165,811	17.5
25,001–50,000	298	12.3	11,144,128	27.3
10,001–25,000	667	27.5	11,559,631	28.3
5,001–10,000	619	25.5	4,902,125	12.0
1–5,000	725	29.9	2,597,250	6.3
Total	2,426	100.0	40,874,019	100.0

Notification of Change of Address

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

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.baronsmeadvct2.co.uk

*Telephone calls may be recorded.

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 01484 600 900
website: www.capitaregistrars.co.uk

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 FSA. 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.

Baronsmead VCT 2 plc

PROXY

I/We _____
(BLOCK LETTERS PLEASE)

of _____
being a member of Baronsmead VCT 2 plc, hereby appoint the Chairman of the meeting, or*

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 16 June 2004, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

Ordinary Resolutions	For	Against
1. To receive the Report and Accounts for the year to 31 March 2004.		
2. To approve the Directors' Remuneration Report for the year to 31 March 2004.		
3. To re-appoint Mrs G Nott as a Director.		
4. To re-appoint PKF as Auditors, and to authorise the Directors to determine their remuneration.		
5. That the limit for Directors' remuneration be increased from £50,000 to £75,000.		
6. That the authorised share capital be increased from £5,050,000 to £8,000,000.		
7. To renew the Directors' authority to allot shares.		
Special Resolutions		
8. To renew the Directors' authority to disapply statutory pre-emption rights.		
9. To renew the Directors' authority to buy-in Shares.		

Signature _____

Dated this _____ day of _____ 2004

Notes

*You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be deposited at the Company's Registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA at least 48 hours before the time of the meeting or any adjournment thereof together with the power of attorney under which it is signed or a notarially certified copy of such power.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.

Any alterations made in this proxy should be initialled.

Completion of a proxy shall not prevent a shareholder from attending the Annual General Meeting and voting in person should you decide to do so.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence HF106

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Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0JQ

FIRST FOLD

THIRD FOLD AND TUCK IN

Corporate Information

Directors

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

Secretary

ISIS Asset Management plc
80 George Street
Edinburgh EH2 3BU

Registered Office and Investment Managers

ISIS Equity Partners plc
100 Wood Street
London EC2V 7AN

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Registrars and Transfer Office

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

Brokers

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

Auditors

PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

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 regulated by the FSA.

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