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To Shareholders in
Singer & Friedlander AIM 2 VCT Plc

21 July 2005

Analysis of Year End Results and Proxy Voting Advice (S & F AIM 2 VCT)

Dear Shareholder,

You will recently have received from Singer & Friedlander AIM 2 VCT Plc, or will soon do so, the Annual Report & Accounts plus a notice of the Annual General Meeting on the 7th September. We have previously written to you expressing our concerns about the three Singer & Friedlander AIM VCTs, including the poor historic performance of the AIM 2 VCT. This note is to give you our latest conclusions concerning this company and advice on how to exercise your proxy vote.

Note that many shareholders did respond to our previous letter and wrote to the Chairman of the company, Mr James Hambro. Although we have exchanged letters with Mr Hambro, he has so far rejected our calls for a meeting to discuss the situation of the company.

Comments on the Latest Results

The Net Asset Value of the company, rose by 16.6% during the year. This of course is a substantial improvement on past results but no doubt partly reflects the general improvement in the AIM market (the AIM Index rose by 19.7% although that is not necessarily a good measure for Venture Capital Trusts that cannot invest in many AIM companies). By comparison the FTSE All-Share rose by 11.8% during the year. However, the Net Asset Value per share at the year end was still only 71 pence, in comparison with your initial investment of one pound per share at the IPO in April 2000. A final dividend of 0.50p per share will be paid this year (no interim dividend was paid of course).

The History of the Company

The company raised £22 million in early 2000. The record thereafter is best examined by looking at the following table.

	Year 1 (Mar 2001)	Year 2 (Mar 2002)	Year 3 (Mar 2003)	Year 4 (Mar 2004)	Year 5 (Mar 2005)	Totals (£'000)
Net Assets (£million)	20.2	16.3	11.0	13.1	14.8	
Assets per share (pence)	92	74	50	61	71	
Income (£'000)	785	457	366	400	303	2,311
Fund Management Fees (£'000)	*329*	*332*	*145*	*242*	*264*	*1,312*
Administration Expenses (£'000)	*243*	*210*	*241*	*220*	*206*	*1,120*
Tax (£'000)	*41*	*31*	*0*	*0*	*0*	*72*
Total Costs (£'000)						2,504
Gains/Losses on Investments (£'000)	-528	-3,725	-5,199	2,441	2,351	-4,660
Dividends Paid (£'000)	286	132	76	108	104	706
Retaind Prof./Loss £'000)	-641	-3,911	-5,295	2,271	2,080	-5,496

If you examine the right hand column of the above table you can see that Total Costs (Fund Management Fees and Administrative Expenses) over the last five years have exceeded the income of the company. In addition, shareholders have suffered a loss of £4.7 million from investment activities. Total dividends to shareholders have been only £706,000 which is less than both the fund management fees and the administrative expenses, most of which are paid to Singer & Friedlander.

Why the Returns to Shareholders Have Been So Poor

Although the poor performance of the company can mainly be attributed to the poor investment performance (and it is probably debatable whether that is due to the general trends in the AIM marketplace over the period), it is certainly true that the high costs have not helped matters.

Although venture capital funds often have high management charges, the expectation is that they will also have high investment returns, but the Singer & Friedlander AIM VCTs are simply not achieving such returns. Neither are most other AIM VCTs incidentally, and this particular fund seems not to be greatly different to the nearest comparable funds.

Our view is that this cost structure should not be allowed to continue. It is not in the interests of shareholders to persist in continuing to operate the company in this way. Clearly the directors are ultimately responsible for this state of affairs and it raises the question of what investment returns they expect to achieve that will improve the outlook.

In reality the prospects for the AIM market may not be good. For example, the Investors Chronicle in a recent edition said that "*there are some signs that the AIM boom may be coming to an end*" and Martin Churchill of Tax Efficient Review was quoted in a recent Financial Times as saying that "*I am very nervous about AIM companies going forward*". In summary the fear is that investment returns over the next five years may be no better than they have been over the last five years.

It is also worth pointing out that the bid price of your shares at the time of writing this note is 58 pence, so if you choose to sell you will have lost a substantial amount on your original investment of £1 per share, which is only slightly offset by dividends received to date totalling 3.25p.

Our Original Comments and Complaints

In our original letter to you, we raised the following issues:

a - The performance of the company, which is commented on above.

b - The level of audit fees and other fees paid to PricewaterhouseCoopers (PWC). In the preliminary results statement it says "*The board continues to investigate other opportunities to reduce overheads and has recently negotiated a reduction in fees payable to PWC"*. This is welcome news, but it is not clear what fees will be paid going forward and we suggest that there needs to be not just a minor reduction, but a very substantial one. Note that it seems that one reason for the higher costs than normal are that an "interim review" is undertaken by PWC which most VCTs dispense with - we think this should be dropped immediately, but even so that does not seem to account for the full amount of the excessive costs in comparison with other such companies. I gather there may be more news on this subject announced at the AGM, but if in doubt, we recommend that you vote against re-appointment of the auditors.

Company Strategy and Future Direction

In our view substantial changes need to be made to this company to put it on a sounder footing. Costs must be reduced substantially, either by renegotiating the relevant contracts, or by considering a merger with other similar companies (where the overheads could be reduced in relation to the fund size and income). Clearly two candidates in regard to the latter are the other two Singer & Friedlander AIM VCTs. We would like the company to consider more actively such a merger, as has recently be successfully achieved by other venture capital trusts such as the Chrysalis, Quester and Pennine AIM VCTs.

Attendance at the AGM and How to Vote

I would certainly encourage all shareholders to attend the Annual General Meeting so you can hear for yourself what the Directors have to say on the above points. I will certainly be attending on behalf of UKSA, as well as a personal shareholder in the company, to represent the interests of shareholders. If you are not attending in person, I would suggest that you appoint me as your proxy to vote on your behalf at the meeting.

As it is not clear at this time exactly what might be announced at the AGM on some of the above issues, if you are undecided as to how to vote after reading the Annual Report I would ask that you appoint me as your proxy and I will vote according to what is said (or alternatively you can give me specific guidelines). If you wish to do that, please do the following:

- Extract the proxy voting form from the Annual Report.
- Enter your name as the name of the shareholder.
- Enter my name and the address in the heading of this letter as the person you are appointing as proxy and cross out "*the Chairman of the meeting*" .
- Leave the voting boxes blank, unless you wish to give me specific instructions.
- Date and sign the form.
- Return it to me to the following address: UKSA, PO Box 62, Chislehurst, BR7 5YB using the reply paid envelope enclosed and I will forward it to the company's registrars after taking a copy. It would help if you can put your address and the number of shares you hold at the foot of the form for my information.

If you have already returned a proxy form to the registrars, but wish to change your vote, please telephone me on the number below and I will send another copy to you. Otherwise if you have any questions on any of the above, please call me on 020-8467-2686 at any time.

Even if you intend to attend the AGM, which I would certainly encourage you to do, we advise you to return the proxy voting form as suggested above.

How to Support UKSA

If you have not already become a member of UKSA (and there are many other benefits besides being able to get involved in our campaigning activities), then please consider doing so. More information and an application form are present in the enclosed membership leaflet, or look at our internet web site at www.uksa.org.uk. If you have any questions on membership please telephone 0870-70-60-600. The application form can be returned in the same reply paid envelope as the proxy voting form.

Note that UKSA is a mutual organisation owned by its members and we rely solely on our members to fund UKSA operations (we have no government funding and we do not accept funding from financial institutions). The more members we have the better we can represent your interests.

Yours sincerely

Roger Lawson
Communications Director