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**N2VCT**

Northern 2 VCT PLC

**2000**



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## Financial Summary

Period ended 31 January

2000

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<b>Net revenue before tax</b>	<b>£638,000</b>
<b>Revenue return per share</b>	<b>3.0p</b>
<b>Dividend per share</b>	<b>2.2p</b>
<b>Net assets</b>	<b>£20,523,000</b>
<b>Net asset value per share</b>	<b>93.2p</b>
<b>Share price at end of period</b>	<b>100p</b>

Northern 2 VCT PLC is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. The company's principal objectives are:

- to invest in a portfolio of listed and unlisted shares and securities which will, through a combination of income yield and capital growth, provide high long-term returns to shareholders
- to maintain its Venture Capital Trust status so that the company and its shareholders may continue to benefit from the tax reliefs and exemptions available under the legislation

# Chairman's Statement

I am pleased to present to shareholders Northern 2 VCT's first annual report, covering the period from the date of incorporation to 31 January 2000. During the period the company raised over £22 million from investors - the highest figure achieved by any new Venture Capital Trust launched in the 1998/99 tax year - and made an encouraging start to the process of building its portfolio of qualifying venture capital investments.

## Net asset value

The net asset value (NAV) at 31 January 2000 was 93.2p per share compared with an effective opening value, after deducting issue expenses, of 95p. As our venture capital investments are all still valued at their original cost, the reported NAV reflects the impact of rising interest rates on the market value of our fixed interest portfolio (whose redemption yield is substantially pre-determined) and the company's policy of charging 75% of management fees against capital reserves. The NAV is stated after deducting the proposed final dividend.

## Investments

During the year our managers completed 10 unlisted venture capital investments, further details of which are given elsewhere in this report. Your directors are encouraged at this early stage by the way the portfolio is shaping up and by the standard of the continuing flow of potential new investments. Another investment has been completed since the end of January, taking the cumulative amount invested to £4.6 million. I am also pleased to report the successful flotation of Scipher shortly after our year end, as a result of which our original investment of £260,000 more than doubled in value by the end of February.

## Revenue and dividends

Net revenue before tax for the period was £638,000 and the revenue return per share (earnings per share) was 3.0p. The latter figure is based on a weighted average number of shares in issue during the year, and the revenue actually available for distribution amounts to just over 2.2p for each share in issue at the year end. As no interim dividend was paid, the directors are pleased to recommend a final dividend of 2.2p per share, which will be paid on 9 June 2000 to shareholders on the register on 17 March 2000. Shareholders should bear in mind that in the short term the annual dividend is likely to reduce as funds are moved from the fixed interest portfolio into venture capital investments, which may yield less income.

## VCT qualifying status

Your board has retained PricewaterhouseCoopers to monitor and report on the company's progress towards meeting the qualifying investment

requirements laid down in the VCT legislation. We are confident that all the relevant conditions will be met in advance of the first deadline in January 2002.

## Share buy-backs

The company's mid-market share price has remained resolutely at its opening level of 100p and so far as the board is aware there has been no trading in the shares. In order to maintain the company's ability to act as a market purchaser where this is in the interest of shareholders generally, at the forthcoming annual general meeting we will be asking shareholders to renew the board's powers to purchase the company's shares in the market. We also intend during the next year to seek Court consent to a reduction in the company's share premium account, so enabling us to credit an equivalent amount to a new distributable capital reserve which can be utilised to purchase shares in the market for cancellation.

## Proposed share placing

The directors intend in the near future to use their authority to place a small number of new shares, not exceeding 10% of the existing share capital. This is an effective and relatively inexpensive way of increasing the company's capital base. It is envisaged that new shares will be issued at a small premium to the 1999 issue price of 100p and that they will not rank for the final dividend for the period ended 31 January 2000.

## Corporate governance

The company complies with current published guidance to best practice in corporate governance. A statement covering the key matters relevant to the company is set out on pages 14 and 15.

## Future prospects

We operate in strange times. A bubble of enthusiasm for internet stocks has starved some more traditional sectors of investment capital. Yet it has also created an unprecedented enthusiasm for entrepreneurial activity in the UK, which we are well placed to support. Our managers continue to receive a strong flow of enquiries from entrepreneurs all over the country and, in conjunction with our sister funds, we can make investments of up to £3 million. We therefore have the prospect of achieving for our shareholders not only a good return on their investment, augmented by VCT tax reliefs, but also the satisfaction of knowing that their investment has helped to create wealth and opportunity in the economy.

**Matt Ridley**  
Chairman



## Directors



**Dr Matt Ridley (Chairman)**, aged 42, is an author, journalist and businessman and was formerly science editor and American editor of *The Economist*. He is chairman of the International Centre for Life in Newcastle upon Tyne, deputy chairman of Northern Rock plc and a non-executive director of Northern Investors Company PLC.



**Alastair Conn FCA**, aged 44, is managing director of Northern Venture Managers Limited. He qualified as a chartered accountant with Price Waterhouse and worked for Northern Investors Company PLC as an investment executive before founding Northern Venture Managers with Michael Denny and others in 1988.



**Michael Denny MSI**, aged 56, is the chairman of Northern Venture Managers Limited and was previously North-East region director of the National Enterprise Board. He is a non-executive director of Northern Investors Company PLC, Northern Venture Trust PLC and Postern Fund Management Limited and is a former chairman of the British Venture Capital Association.



**Christopher Fletcher CA**, aged 48, is managing director of Baillie Gifford's life and retail operations. He previously spent ten years as a corporate finance partner in the Edinburgh office of KPMG, where he advised on a wide variety of business transactions.



**Professor Sir Frederick Holliday CBE FRSE**, aged 64, is chairman of Northumbrian Water Group PLC, Go-Ahead Group plc and Northern Venture Trust PLC and a non-executive director of Suez Lyonnaise des Eaux and Brewin Dolphin Holdings plc. He is a marine scientist and was vice-chancellor of the University of Durham from 1980 to 1990.



**Frank Neale MBA**, aged 49, has been a partner in Phildrew Ventures since 1988. He worked as a management consultant before joining Citicorp Venture Capital in 1983. He is a former vice-chairman of the British Venture Capital Association and is a director of a number of venture capital-backed companies.

# Advisers

## Secretary and Registered Office

Christopher Mellor FCA AMSI  
Northumberland House  
Princess Square  
Newcastle upon Tyne NE1 8ER  
*Tel: 0191 244 6000*  
*Fax: 0191 244 6001*  
*E-mail: n2vct@nvm.co.uk*

## Registered Number

3695071

## Investment Manager

Northern Venture Managers Limited  
Northumberland House  
Princess Square  
Newcastle upon Tyne NE1 8ER

## Fixed-interest Investment Adviser

Chiswell Associates Limited  
4 Chiswell Street  
Finsbury Square  
London EC1Y 4UP

## Auditors

PricewaterhouseCoopers  
89 Sandyford Road  
Newcastle upon Tyne NE99 1PL

## Taxation Advisers

PricewaterhouseCoopers  
1 London Bridge  
London SE1 9QL

## Solicitors

Dickinson Dees  
St Ann's Wharf  
112 Quayside  
Newcastle upon Tyne NE99 1SB

S J Berwin & Co  
222 Grays Inn Road  
London WC1X 8HB

## Stockbrokers

Bell Lawrie Wise Speke  
Commercial Union House  
39 Pilgrim Street  
Newcastle upon Tyne NE1 6RQ

## Bankers

Barclays Bank PLC  
71 Grey Street  
Newcastle upon Tyne NE99 1JP

## Registrars

Lloyds TSB Registrars Scotland  
117 Dundas Street  
Edinburgh EH3 5ED  
*Shareholder helpline: 0870 601 5366*

# Investment Manager's Review

## Background

This review covers the period from March 1999, when the first share allotments by Northern 2 VCT took place, to the end of January 2000. The net proceeds of share issues during the period amounted to approximately £21 million, and the Venture Capital Trust rules require us to invest at least 70% in qualifying venture capital holdings within three accounting periods. The primary objective is therefore to invest at least £15 million in such holdings by 31 January 2002, although the directors have indicated that in practice they will aim to maintain the level of qualifying holdings at around 80% of net assets in order to allow flexibility in the management of the portfolio.

## Management of liquid funds

The share issue proceeds were initially invested in a portfolio of gilts and corporate bonds managed by Chiswell Associates Limited, with funds being drawn down by Northern Venture Managers as required in order to build the venture capital portfolio. At 31 January 2000 the funds managed by Chiswell Associates totalled some £15 million, on which a yield to maturity of 5.8% is currently being obtained.

## The venture capital investment process

Northern Venture Managers typically receives around 40 new investment enquiries each month through its offices in Newcastle upon Tyne, Edinburgh and Southampton. Many do not pass the initial screening process, but if the appraisal is positive then NVM will make a proposal to the enquirer setting out some broad terms and conditions for an investment. If the proposal is accepted, NVM carries out a thorough "due diligence" investigation into key aspects of the business, using specialist outside assistance as appropriate. If the result is satisfactory, a comprehensive report is presented to the NVM board for discussion and decision; if the investment is approved, legal completion usually follows closely thereafter. The whole process typically takes between six and eight weeks.

Northern 2 VCT is entitled to be offered participation in every investment proposal developed by NVM. In the majority of cases the company co-invests alongside Northern Investors Company PLC and Northern Venture Trust PLC, which are also advised by NVM.

## Post-investment monitoring

On completion of a new investment one of NVM's executives takes responsibility for the ongoing relationship with the investee company, often by taking a board position as a non-executive director. When appropriate, for instance where a particular area of expertise is called for, an external non-executive director may be brought in. The director will play a key role and must be able to contribute to the strategic development of the business, usually over a period of several years, so that the long-term objectives of all the shareholders can be met.

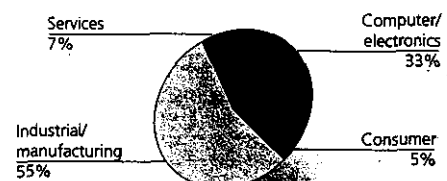
NVM monitors the progress of each investment carefully through well-established monthly reporting procedures, and NVM's monitoring reports are in turn reviewed on a regular basis by the board of Northern 2 VCT.

## Unlisted investments

Ten unlisted investments totalling £3.8 million were completed during the period to 31 January 2000. Information on individual holdings is set out on pages 9 to 11. The average investment of just under £400,000 is slightly lower than forecast, but we expect this figure to increase over the next two years. A good spread of industry sectors has been achieved as can be seen from the accompanying pie chart; we are actively seeking opportunities in areas of new technology with growth potential, but we are taking a cautious view of the current proliferation of "dot.com" ventures which in many cases lack both management and commercial substance.

In addition to the investments featured in this report, we have since the year end completed an investment of £800,000 in T&D Packaging, based in Bradford and Liverpool, which is one of the UK's largest manufacturers of metal drums.

## Industry sector



Unlisted investments are valued in accordance with the accounting policy set out on page 17, which follows the guidelines laid down by the British Venture Capital Association. As well as requiring appropriate provision where an investment is under-performing significantly, the guidelines stipulate that no investment should be revalued upwards within 12 months of its acquisition. As no provisions were deemed necessary at 31 January 2000, the entire portfolio is valued at cost in the financial statements. The progress of investee companies to date has been satisfactory. After our year end Scipher plc obtained a listing on the London Stock Exchange and has subsequently seen its share price increase substantially, with the result that Northern 2 VCT's original investment of £260,000 was at the end of February valued (including the proceeds of shares sold in the market during February) at £531,000.

#### **Outlook**

We are continuing to see a good flow of potential venture capital deals from all over the UK. Northern Venture Managers is mainly active in the market for investments of up to £3 million, an important sector which many fund managers now seem to have vacated in order to pursue larger transactions. The economic climate remains broadly favourable and the Government continues to encourage the development of an enterprise culture. We are therefore positive about future prospects and expect to make further good progress in the coming year.

#### **Alastair Conn**

Managing Director  
Northern Venture Managers Limited

## Investment Portfolio

	Cost £000	Valuation £000	% of portfolio by value
<b>Venture capital investments</b> (see pages 9 to 11)			
TFB Group Limited	700	700	3.7
Tolwood Limited	673	673	3.6
Belcot Tool & Die Limited	500	500	2.7
CQC Limited	350	350	1.9
Chorus Application Software Limited	338	338	1.8
Newall International Limited	330	330	1.7
Scipher plc	260	260	1.4
Sifam Moulded Products Limited	253	253	1.3
MediDesk Limited	250	250	1.3
Barony Universal Products plc	195	195	1.0
<b>Total venture capital investments</b>	<b>3,849</b>	<b>3,849</b>	<b>20.4</b>
<b>Listed fixed-interest investments</b>			
£1,500,000 Deutsche Bank Finance 0% 2001	1,421	1,396	7.4
£1,250,000 Abbey National Treasury 8% 2003	1,328	1,272	6.8
£1,250,000 Halaba International Finance 7.375% 2002	1,264	1,254	6.7
£1,250,000 Bank Voor Nederlandse Gemeenten 7.3125% 2000	1,255	1,252	6.6
£1,000,000 Oesterreich Postspark 10.75% 2001	1,050	1,043	5.5
£1,000,000 Kingdom of Sweden 7.625% 2000	1,010	1,030	5.5
£1,000,000 Swedish Export Credit 7.625% 2001	1,040	1,007	5.3
£1,000,000 Lloyds Bank 7.375% 2004	1,012	1,003	5.3
£1,000,000 Federal National Mortgage Association 6.875% 2002	1,038	998	5.3
£1,000,000 Commerzbank (Overseas Finance) 7% 2001	1,011	989	5.3
£750,000 LBW Finance NV 7.75% 2000	764	755	4.0
£750,000 Abbey National Treasury 7.125% 2001	763	751	4.0
£750,000 Province of Ontario 6.875% 2000	756	750	4.0
£700,000 Bank America Credit Card 7.125% 2004	700	693	3.7
£400,000 LBW Finance NV 7.375% 2001	414	401	2.1
£400,000 General Electric Capital Corporation 7% 2002	415	399	2.1
<b>Total listed fixed-interest investments</b>	<b>15,241</b>	<b>14,993</b>	<b>79.6</b>
<b>TOTAL</b>	<b>19,090</b>	<b>18,842</b>	<b>100.0%</b>

# Venture Capital Investments

## TFB Group Limited *Sunbury-on-Thames*

<b>First investment:</b>	May 1999	(First audited accounts will be for the period to 31 December 1999.)
<b>Equity held:</b>	14.6%	
<b>Cost:</b>	£700,000	
<b>Valuation:</b>	£700,000	

*TFB develops and distributes software packages for use in the administration of professional practices. The business was bought out by its management team in May 1999 with £2.4 million of equity funding from Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.*



## Tolwood Limited *Newton Aycliffe, County Durham*

<b>First investment:</b>	December 1999	(First audited accounts will be for the period to 31 March 2000.)
<b>Equity held:</b>	10.8%	
<b>Cost:</b>	£673,000	
<b>Valuation:</b>	£673,000	

*Tolwood produces pressed steel components for vehicle manufacturers. The business was acquired in a management buy-in/buy-out in December 1999 with £2.5 million of equity funding from Northern Venture Trust PLC, Northern Investors Company PLC and Northern 2 VCT PLC. Valuation method: Cost. Dividends received during the period: Nil.*



## Belcot Tool & Die Limited *Birmingham*

<b>First investment:</b>	October 1999	(First audited accounts will be for the period to 31 March 2000.)
<b>Equity held:</b>	15.0%	
<b>Cost:</b>	£500,000	
<b>Valuation:</b>	£500,000	

*Belcot Tool & Die manufactures machine tooling for the automotive industry. The business was acquired in a management buy-in/buy-out in October 1999 with £1 million of equity funding from Northern 2 VCT PLC and Northern Investors Company PLC. Valuation method: Cost. Dividends received during the period: Nil.*



## Venture Capital Investments continued



### CQC Limited *Barnstaple*

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<b>First investment:</b>	October 1999	(First audited accounts will be for the period to 30 September 2000.)
<b>Equity held:</b>	10.0%	
<b>Cost:</b>	£350,000	
<b>Valuation:</b>	£350,000	

*CQC manufactures personal load carrying equipment for military use. The business was acquired by its management team in October 1999 with £1.4 million of equity provided by Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.*

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### Chorus Application Software Limited *Barnstaple*

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<b>First investment:</b>	November 1999	(First audited accounts will be for the period to 31 December 2000.)
<b>Equity held:</b>	11.6%	
<b>Cost:</b>	£338,000	
<b>Valuation:</b>	£338,000	

*Chorus Application Software supplies tailored accounting systems to mid-size and large corporate users. The business was acquired by its management team in November 1999 with £1.3 million of equity provided by Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.*

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### Newall International Limited *Peterborough*

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<b>First investment:</b>	July 1999	(First audited accounts will be for the period to 30 June 2000.)
<b>Equity held:</b>	7.7%	
<b>Cost:</b>	£330,000	
<b>Valuation:</b>	£330,000	

*Newall International manufactures specialised grinding machines used in the manufacture of components for the automotive and aerospace industries. The business was acquired in a management buy-in/buy-out in July 1999 with £1.5 million of equity funding from Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.*

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### Scipher plc Hayes, Middlesex

<b>First investment:</b>	December 1999	Year ended 31 March	1999	1998
<b>Equity held:</b>	—*		£000	£000
<b>Cost:</b>	£260,000	Sales	11,768	12,662
<b>Valuation:</b>	£260,000	Loss before tax	(2,689)	(29)
		Loss for the year	(2,689)	(131)
		Net assets	3,335	1,033

\*Loan stock convertible into 0.1% of equity on flotation.

Scipher is a technology development and licensing company formed in 1996 through a management buy-out from EMI. Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC invested £1 million in convertible loan stock in advance of the company's flotation on the London Stock Exchange in February 2000. Valuation method: Cost. Dividends received during the period: Nil.



### Sifam Moulded Products Limited Torquay

<b>First investment:</b>	August 1999	(First audited accounts will be for the period to 30 June 2000.)
<b>Equity held:</b>	11.0%	
<b>Cost:</b>	£253,000	
<b>Valuation:</b>	£253,000	

Sifam Moulded Products is a plastic injection moulder. The business was acquired in a management buy-in in August 1999 with £1.1 million of equity funding from Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.



### MediDesk Limited Richmond, Surrey

<b>First investment:</b>	June 1999	Period ended 31 March	1999
<b>Equity held:</b>	2.6%		£000
<b>Cost:</b>	£250,000	Sales	343
<b>Valuation:</b>	£250,000	Loss before tax	(3,220)
		Retained loss	(3,220)
		Net liabilities	(2,075)

MediDesk produces computer software for the healthcare industry. Early stage funding of £1 million was provided by Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC in June 1999 as part of a syndicate which also included 3i Group plc and Advent VCT PLC. Valuation method: Cost. Dividends received during the period: Nil.



### Barony Universal Products plc Auchinleck, Ayrshire

<b>First investment:</b>	December 1999	(First audited accounts will be for the period to 31 December 1999.)
<b>Equity held:</b>	12.7%	
<b>Cost:</b>	£195,000	
<b>Valuation:</b>	£195,000	

Barony Universal Products is a manufacturer of aerosols. The business was acquired in a management buy-in/buy-out in December 1999 with £750,000 of equity funding from Northern 2 VCT PLC, Northern Investors Company PLC and Northern Venture Trust PLC. Valuation method: Cost. Dividends received during the period: Nil.



# Directors' Report

The directors present their report and the audited financial statements for the period from 8 January 1999 to 31 January 2000.

## Activities and status

The principal activity of the company during the period was the making of long-term equity and loan investments, mainly in unlisted companies. The company is an investment company as defined in Section 266 of the Companies Act 1985, has been listed on the London Stock Exchange since April 1999 and has been granted provisional approval by the Inland Revenue as a Venture Capital Trust. The chairman's statement on page 3 includes a review of developments during the period and of future prospects.

The directors have managed the affairs of the company with the intention that it will qualify for approval as an investment trust for the purposes of Section 842 of the Income and Corporation Taxes Act 1988 for the period ended 31 January 2000. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Act.

The directors are required by the articles of association to put an ordinary resolution to the company's annual general meeting in 2006 and, if passed, at five-year intervals thereafter, that the company should continue to operate as a Venture Capital Trust. If any such resolution is not passed, the directors shall within four months convene an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company.

## Results and dividend

Net revenue attributable to shareholders for the period	£486,000
Appropriated as follows:	
Final dividend proposed - 2.2p per share	485,000
Retained in revenue reserve	1,000
	<u>£486,000</u>

## Directors

The directors of the company during the period and their interests in the issued ordinary shares of 25p of the company were as follows:

	As at 31 January 2000	As at date of appointment
M W Ridley <i>Chairman</i>	200,000	—
A M Conn	25,000	1
E M P Denny	25,000	1
C G A Fletcher	20,000	—
Sir Frederick Holliday	5,000	—
F L G Neale	50,000	—

All of the directors' share interests shown above were held beneficially. There have been no changes in the directors' share interests between 31 January 2000 and the date of this report.

Mr A M Conn and Mr E M P Denny may become entitled to be granted options to subscribe for shares under the arrangements referred to in Note 13 to the financial statements.

Brief biographical notes on the directors are given on page 4. In accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules, all of the directors will retire at the first annual general meeting of the company and will offer themselves for re-election.

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", no contract subsisted during or at the end of the period in which any director was materially interested and which was significant in relation to the company's business.

## Directors' and officers' liability insurance

The company has, as permitted by Section 310(3) of the Companies Act 1985, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

## Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. There were no amounts owing to trade creditors at 31 January 2000.

**Management**

Northern Venture Managers Limited (NVM) has acted as investment adviser and manager to the company since April 1999. The principal terms of the company's management agreement with NVM are set out in Note 2 to the financial statements. Mr A M Conn and Mr E M P Denny are shareholders in and executive directors of NVM.

**Fixed assets**

Movements in fixed asset investments during the period are set out in Note 8 to the financial statements.

**Substantial shareholdings**

So far as the directors are aware, there were no individual shareholdings representing 3% or more of the company's issued share capital at the date of this report.

Northern Venture Managers Limited and its employees (including Mr A M Conn and Mr E M P Denny) held a total of 135,000 shares, representing 0.6% of the company's issued share capital, at the date of this report.

**Annual general meeting**

Resolutions will be proposed as special business at the annual general meeting to:

- renew the authority of the directors, in certain limited circumstances, to allot equity shares for cash otherwise than pro rata to existing shareholders, and
- renew the authority of the directors to make market purchases of the company's shares for cancellation.

It is the intention of the directors to seek to renew these authorities at each subsequent annual general meeting.

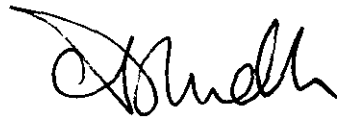
**Auditors**

PricewaterhouseCoopers, who were appointed as auditors of the company on incorporation, are willing to continue in office and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

C D Mellor  
Secretary

7 March 2000



# Corporate Governance

The company is committed to maintaining high standards in corporate governance. The directors consider that the company has throughout the period under review complied in all material respects with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the London Stock Exchange in June 1998.

## Board of directors

The company has a board of six non-executive directors, the majority of whom are independent of the company's investment manager. The board meets regularly on a quarterly basis, and on other occasions as required, to review investment performance and monitor compliance with the investment policy laid down by the Board. A brief biographical summary of each director is given on page 4.

The board has appointed three standing committees to make recommendations to the board in specific areas:

## Audit Committee

Mr C G A Fletcher (Chairman)  
Professor Sir Frederick Holliday  
Mr F L G Neale  
– deals with matters relating to audit, financial reporting and internal control systems. The committee meets three times per year and has direct access to PricewaterhouseCoopers, the company's auditors.

## Nomination Committee

Dr M W Ridley (Chairman)  
Mr E M P Denny  
Mr C G A Fletcher  
Professor Sir Frederick Holliday  
Mr F L G Neale  
– considers the selection and appointment of directors and makes recommendations to the board as to the level of directors' fees. The board does not have a separate Remuneration Committee, as the company has no employees or executive directors. Detailed information relating to the remuneration of directors is given in Note 4 to the financial statements.

## Management Engagement Committee

Dr M W Ridley (Chairman)  
Mr C G A Fletcher  
Professor Sir Frederick Holliday  
Mr F L G Neale  
– undertakes a periodic review of the terms of the management agreement with Northern Venture Managers (NVM).

All of the directors have access to the advice and services of Mr C D Mellor, the company secretary, who has administrative responsibility for the meetings of the board and its committees. Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties. Professor Sir Frederick Holliday is the senior non-executive director of the company.

The company's Articles of Association require that one third of the directors should retire by rotation each year and seek re-election at the annual general meeting, and that directors appointed by the board should seek re-appointment at the next annual general meeting. The board complies with the requirement of the Combined Code that all directors should submit themselves for re-election at the first annual general meeting of the company and at least every three years thereafter. It is the board's policy that directors will retire from office at the conclusion of the next annual general meeting following their attaining the age of 70 years.

## Internal financial control

In September 1999 the Turnbull Working Party on Internal Control published its guidance to listed companies in relation to reporting on internal control. Full compliance with this guidance is required for accounting periods ending on or after 23 December 2000. As permitted by the London Stock Exchange by its letter dated 27 September 1999, the company has for the period ended 31 January 2000 complied with Provision D.2.1 of the Combined Code by reporting on internal financial control in accordance with the guidance issued by the Rutterman Working Group in December 1994. The directors have established the procedures necessary to comply with the Turnbull Report guidance in respect of the year ending 31 January 2001.

The directors have overall responsibility for keeping under review the effectiveness of the company's system of internal financial controls. The purpose of these controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board regularly reviews financial results and investment performance with the directors of NVM.

Responsibility for accounting, secretarial services and physical custody of documents of title relating to investments has been contractually delegated to NVM under the management agreement. NVM has established its own system of internal controls in relation to these matters, details of which have been reviewed by the Audit Committee and the company's external auditors. The company's portfolio of government stocks and corporate bonds is managed on a discretionary basis, within guidelines laid down by the board, by Chiswell Associates Limited.

The directors confirm that by means of the procedures set out above they have reviewed the effectiveness of the company's internal financial controls during the accounting period under review.

#### **Risk management**

A statement of the company's principal objectives is given on page 2. In order to achieve these objectives the company will invest its funds primarily in unlisted equity holdings, which by their nature may entail a higher degree of risk than investments in large listed companies. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection of investments and by maintaining a wide spread of investments in terms of financing stage, industry sector and geographical location.

Management of the company's liquid funds is carried out by external managers in accordance with policy guidelines laid down and regularly reviewed by the directors. The company has not undertaken any borrowings or entered into any derivative transactions and does not expect to do so in the foreseeable future.

#### **Directors' responsibilities**

The directors are required by law to prepare financial statements which give a true and fair view both of the financial position of the company at the end of the financial year and of the results for that year. The financial statements must comply with applicable Accounting Standards and with the prescribed statutory formats and disclosures.

The directors confirm that the financial statements for the period ended 31 January 2000 comply with the requirements set out above and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement, have been used in their preparation.

The directors are also responsible for ensuring that proper accounting records are maintained and for taking such steps as are reasonably open to them to ensure that the assets of the company are safeguarded and that fraud and other irregularities are prevented.

#### **Going concern**

After making enquiries, the directors believe that it is appropriate to apply the going concern basis in preparing the financial statements.

# Auditors' Report

## TO THE MEMBERS OF NORTHERN 2 VCT PLC

We have audited the financial statements on pages 17 to 26.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 15 this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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 read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 14 and 15 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, 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 to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

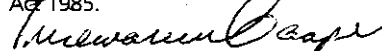
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 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.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 January 2000 and of its revenue and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**

Chartered Accountants  
and Registered Auditors  
Newcastle upon Tyne

7 March 2000

# 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 financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial statements of investment trust companies".

## **b Investments**

Listed investments are stated at middle market prices, discounted where necessary to reflect lack of liquidity.

Unlisted investments are stated at directors' valuation. The directors' policy in valuing unlisted investments is to carry them at cost except in the following circumstances:

- where a company's under-performance against plan indicates a diminution in the value of the investment: provision against cost is made as appropriate in bands of 25%.
- where a company is well-established and profitable: the shares may be valued by applying a suitable price-earnings ratio to the company's historic post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted by 25-50% to reflect unmarketability.
- where a value is indicated by a material arm's-length transaction by a third party in the shares of a company.

Unlisted investments will not normally be revalued upwards for a period of at least twelve months from the date of acquisition.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve.

## **c Income**

Investment income includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable on listed equity shares are brought into account on the ex-dividend date.

Dividends receivable on unlisted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received.

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

## **d Expenses**

All expenses are accounted for on an accruals basis.

Expenses are charged wholly to revenue with the exception of:

- expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate, and
- the investment management fee, which has been charged 25% to the revenue account and 75% to realised capital reserve to reflect that element which is, in the directors' opinion, attributable to the acquisition of the company's investments and the maintenance or enhancement of their value.

## **e Taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that a liability will crystallise.

**Statement of Total Return** (incorporating the Revenue Account)  
for the period from 8 January 1999 to 31 January 2000

		Period ended		
		31 January 2000		
	Notes	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments	8	–	(259)	(259)
Income	1	869	–	869
Investment management fee	2	(68)	(203)	(271)
Other expenses	3	(163)	–	(163)
<b>Return on ordinary activities before tax</b>		638	(462)	176
Tax on ordinary activities	5	(152)	48	(104)
<b>Return on ordinary activities after tax for the financial year</b>		486	(414)	72
Dividends	6	(485)	–	(485)
<b>Transfer to/(from) reserves</b>	14	1	(414)	(413)
<b>Return per share</b>	7	3.0p	(2.5)p	0.5p

- The revenue column of this statement is the profit and loss account of the company
- The accompanying notes are an integral part of this statement
- All revenue and capital items in the above statement derive from continuing operations



# Cash Flow Statement

for the period from 8 January 1999 to 31 January 2000

	Period ended	
	31 January 2000	
	£000	£000
<b>Operating activities</b>		
Net revenue from ordinary activities before tax		638
Increase in debtors		(530)
Increase in creditors		75
Management fees paid charged to capital		(203)
Net cash outflow from operating activities		(20)
<b>Taxation</b>		
Corporation tax paid		(131)
<b>Financial investment</b>		
Purchase of investments	(21,020)	
Sale/repayment of investments	1,919	
Net cash outflow from financial investment		(19,101)
<b>Equity dividends paid</b>		-
<b>Financing</b>		
Issue of redeemable preference shares	50	
Issue of ordinary shares	22,025	
Share issue expenses	(1,089)	
Redemption of preference shares	(50)	
Net cash inflow from financing		20,936
<b>Increase in cash</b>		1,684
<b>Analysis of cash balance</b>		
At 8 January 1999		-
Net cash inflow for the period		1,684
At 31 January 2000		1,684

# Notes to the Financial Statements

for the period from 8 January 1999 to 31 January 2000

## 1 Income

	Period ended 31 January 2000
	£000
Interest receivable	
Government stocks and bonds	519
Bank deposits	245
Loans to unlisted companies	105
	<u>869</u>

## 2 Investment management fee

	Period ended 31 January 2000	
	Revenue	Capital
	£000	£000
Investment management fee	58	173
Irrecoverable VAT	10	30
	<u>68</u>	<u>203</u>

Northern Venture Managers Limited (NVM) provides investment management and secretarial services to the company under a management agreement which runs for an initial period of five years with effect from 21 April 1999 and may be terminated at any time thereafter by not less than twelve months' notice given by either party.

NVM receives a management fee, payable quarterly in advance, initially at the rate of 1½% of gross assets less current liabilities calculated at half-yearly intervals as at 31 July and 31 January. The fee will be at the rate of 2% for the year ending 31 January 2001 and 2½% thereafter.

NVM also provides administrative and secretarial services to the company for a fee of £35,000 per annum (linked to the movement in the RPI), which is included in other expenses (Note 3).

## 3 Other expenses

	Period ended 31 January 2000
	£000
Administrative and secretarial services	27
Directors' remuneration (Note 4)	43
Auditors' remuneration – audit services	6
– non-audit services	14
Legal and professional expenses	12
Irrecoverable VAT	9
Other expenses	52
	<u>163</u>

## Notes to the Financial Statements continued

for the period from 8 January 1999 to 31 January 2000

### 4 Directors' remuneration

Period ended  
31 January 2000  
£000

Fees paid to directors	23
Amounts paid to third parties in consideration for the services of directors	20
	<hr/>
	43

The fees paid in respect of individual directors were as follows:

	£
M W Ridley (Chairman)	12,500
A M Conn	–
E M P Denny	–
C G A Fletcher	10,000
Sir Frederick Holliday	10,000
F L G Neale	10,000

None of the directors received any other remuneration or benefit during the period. Mr A M Conn and Mr E M P Denny waived their entitlement to directors' fees.

Mr A M Conn and Mr E M P Denny are potential beneficiaries under the share option scheme referred to in Note 13.

### 5 Tax on ordinary activities

Period ended  
31 January 2000

	Revenue £000	Capital £000
Corporation tax payable at 23.8%	152	(48)

### 6 Dividends

Period ended  
31 January 2000  
£000

Final proposed – 2.2p per share	<hr/>
	485

## 7 Return per share

The revenue return per share is based on net revenue from ordinary activities after tax of £486,000 and on 16,274,587 shares, being the weighted average number of shares in issue during the period.

The capital return per share is based on net realised and unrealised capital losses for the year of £414,000 and on 16,274,587 shares, being the weighted average number of shares in issue during the period.

## 8 Fixed asset investments

	31 January 2000 £000
Unlisted venture capital investments	3,849
Listed fixed-interest investments	14,993
	<u>18,842</u>

Movements in investments during the period are summarised as follows:

	Venture capital – unlisted £000	Listed fixed-interest £000	Total £000
Purchases at cost	3,849	17,171	21,020
Disposals – proceeds	–	(1,919)	(1,919)
– realised loss on disposal	–	(11)	(11)
Decrease in unrealised appreciation	–	(248)	(248)
Valuation at 31 January 2000	<u>3,849</u>	<u>14,993</u>	<u>18,842</u>
Book cost at 31 January 2000	3,849	15,241	19,090
Unrealised appreciation at 31 January 2000	–	(248)	(248)
	<u>3,849</u>	<u>14,993</u>	<u>18,842</u>

The overall loss on investments for the period shown in the statement of total return is analysed as follows:

	Period ended 31 January 2000 £000
Net realised loss on disposal	(11)
Decrease in unrealised appreciation	(248)
	<u>(259)</u>

## Notes to the Financial Statements continued

for the period from 8 January 1999 to 31 January 2000

### 9 Unlisted investments

The cost and carrying value of investments in unlisted companies held at 31 January 2000 are shown below.

	31 January 2000	
	Total cost £000	Carrying value £000
<b>TFB Group Limited</b>		
Ordinary shares	117	117
Convertible loan stock	583	583
	<u>700</u>	<u>700</u>
<b>Tolwood Limited</b>		
Ordinary shares	135	135
Loan stock	538	538
	<u>673</u>	<u>673</u>
<b>Belcot Tool &amp; Die Limited</b>		
Ordinary shares	150	150
Loan stock	350	350
	<u>500</u>	<u>500</u>
<b>CQC Limited</b>		
Ordinary shares	50	50
Loan stock	300	300
	<u>350</u>	<u>350</u>
<b>Chorus Application Software Limited</b>		
Ordinary shares	39	39
Convertible loan stock	299	299
	<u>338</u>	<u>338</u>
<b>Newall International Limited</b>		
Ordinary shares	33	33
Loan stock	187	187
Convertible loan stock	110	110
	<u>330</u>	<u>330</u>
<b>Scipher plc</b>		
Convertible loan stock	260	260
<b>Sifam Moulded Products Limited</b>		
Ordinary shares	35	35
Loan stock	218	218
	<u>253</u>	<u>253</u>
<b>MediDesk Limited</b>		
Ordinary shares	72	72
Redeemable preference shares	178	178
	<u>250</u>	<u>250</u>
<b>Barony Universal Products plc</b>		
Ordinary shares	65	65
Loan stock	130	130
	<u>195</u>	<u>195</u>

Additional information relating to investments in unlisted companies is given on pages 9 to 11.

There were no write-downs of unlisted investments during the period.

At 31 January 2000 there were commitments totalling £800,000 in respect of investments approved by Northern Venture Managers Limited but not yet completed.

## 10 Significant interests

Details of shareholdings in those companies where the company's holding represents (1) more than 10% of the allotted equity share capital of any class, (2) more than 10% of the total allotted share capital or (3) more than 10% of the assets of the company itself, are given below. All of the companies named are incorporated in Great Britain.

Company	Class of shares (nominal value £1 unless otherwise stated)	Number held	Proportion of class held
Barony Universal Products plc	Ordinary (10p)	127,400	12.7%
Belcot Tool & Die Limited	Ordinary	64,285	15.0%
Chorus Application Software Limited	Ordinary	23,061	11.6%
CQC Limited	Ordinary (10p)	16,667	10.0%
Sifam Moulded Products Limited	Ordinary (10p)	22,098	11.0%
TFB Group Limited	Ordinary (10p)	58,333	14.6%
Tolwood Limited	Ordinary	48,420	10.8%

## 11 Debtors

	31 January 2000
	£000
Prepayments and accrued income	530
Corporation tax recoverable	27
	<u>557</u>

## 12 Creditors (amounts falling due within one year)

	31 January 2000
	£000
Trade creditors and accruals	75
Proposed dividend	485
	<u>560</u>

## 13 Called-up equity share capital

	31 January 2000
	£000
Authorised:	
30,000,000 ordinary shares of 5p	1,500
Allotted and fully paid:	
22,025,500 ordinary shares of 5p	<u>1,101</u>

During the period the company issued a total of 22,025,500 ordinary shares of 5p for cash at a premium of 95p per share in order to provide financial resources for its investment activities. On 12 January 1999 the company issued 50,000 redeemable preference shares of £1 at par for cash; the preference shares were subsequently redeemed out of the proceeds of ordinary share issues and the authorised and unissued preference capital of £50,000 was redesignated as 1,000,000 ordinary shares of 5p.

Under the terms of a share option scheme established on 10 February 1999, certain executives of Northern Venture Managers Limited (including Mr A M Conn and Mr E M P Denny) may be granted options to subscribe for new ordinary shares. If the company's net asset value per share in a relevant period increases so that it exceeds 100p (less the value of any dividends paid) plus notional interest thereon at the rate of 7% per annum compound, then the executives will be entitled to be granted options equal in value to 20% of such excess. The first such period will expire on 31 January 2004 and thereafter the periods will be of one year's duration. In the event that the performance of the company falls short of the target in any period, the shortfall must be made up before the executives are entitled to any incentive in respect of subsequent periods.

## Notes to the Financial Statements continued

for the period from 8 January 1999 to 31 January 2000

### 13 Called-up equity share capital (continued)

The value per option granted will be calculated by subtracting the exercise price per share from the net asset value per share at the date on which the options become exercisable. The maximum number of options which may be granted to executives without further shareholder approval is capped at 15% of the issued share capital of the company from time to time. The executives will be entitled to cash compensation in the event that the value of the incentive exceeds the amount in respect of which the company is capable of granting share options.

### 14 Reserves

	Share premium £000	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
At 8 January 1999	–	–	–	–
Premium on issue of ordinary shares	20,924	–	–	–
Share issue expenses	(1,089)	–	–	–
Realised on disposal of investments	–	(11)	–	–
Management fee capitalised net of associated taxation	–	(155)	–	–
Net decrease in unrealised appreciation	–	–	(248)	–
Net revenue retained for the period	–	–	–	1
At 31 January 2000	<u>19,835</u>	<u>(166)</u>	<u>(248)</u>	<u>1</u>

### 15 Net asset value per share

The calculation of net asset value per share as at 31 January 2000 is based on net assets of £20,523,000 divided by the 22,025,500 ordinary shares in issue.

### 16 Reconciliation of movements in equity shareholders' funds

	Period ended 31 January 2000 £000
At 8 January 1999	–
Total return after tax and dividends	(413)
Net proceeds of share issues	20,936
At 31 January 2000	<u>20,523</u>

# Shareholder Information

## The company

Northern 2 VCT PLC was incorporated in January 1999. In April 1999 the company obtained a listing on the London Stock Exchange, following its initial offers for subscription of new ordinary shares, which raised over £22 million. The company has been provisionally approved as a Venture Capital Trust by the Inland Revenue.

Northern 2 VCT is managed by Northern Venture Managers Limited, an independent firm of venture capital managers based in Newcastle upon Tyne, Edinburgh and Southampton. Northern Venture Managers also acts as manager of two other listed investment companies, Northern Investors Company PLC and Northern Venture Trust PLC, and has a total of over £85 million under management.

## Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation being contained in the Finance Act 1995. VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits. The benefits to eligible investors include:

- Income tax relief at 20% on new subscriptions (provided the shares are held for at least five years)
- Deferral of tax on certain chargeable gains to the extent that the gain is re-invested in new shares in a VCT
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income)
- exemption from capital gains tax on disposals of shares in VCTs

Northern 2 VCT PLC has been provisionally approved as a VCT by the Inland Revenue. In order to maintain its approval the company must comply with certain requirements on a continuing basis; in particular, within three years from the date of provisional approval at least 70% of the company's investments must comprise "qualifying holdings", of which at least 30% must be in eligible ordinary shares. Where a VCT's original share issue is subsequently followed by further issues, the investments made using the proceeds of the further issues may be disregarded for

the purpose of the 70% and 30% tests in all financial years ending no later than three years after the relevant share issue. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies listed on AiM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment.

## Financial calendar

The company's financial calendar for the year ending 31 January 2001 is as follows:

April 2000	Annual general meeting 2000
October 2000	Interim report for six months to 31 July 2000 published
December 2000	Interim dividend paid
April 2001	Final dividend and preliminary results for year to 31 January 2001 announced; annual report and financial statements published
May 2001	Annual general meeting 2001
June 2001	Final dividend paid

## Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph, the Newcastle Journal and The Herald. The company's FTSE Actuaries classification is "Investment Companies".

Share price information can also be obtained via the Northern Venture Managers website at [www.nvm.co.uk](http://www.nvm.co.uk).

# Notice of Annual General Meeting

Notice is hereby given that the first annual general meeting of Northern 2 VCT PLC will be held at Trinity House, Broad Chare, Newcastle upon Tyne at 11.30am on Thursday 27 April 2000 for the following purposes:

## As ordinary business

- 1 To receive the financial statements for the period ended 31 January 2000 and the directors' and auditors' reports thereon.
- 2 To declare a final dividend of 2.2p per share.
- 3 To re-elect as a director Dr M W Ridley who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 4 To re-elect as a director Mr A M Conn who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 5 To re-elect as a director Mr E M P Denny who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 6 To re-elect as a director Mr C G A Fletcher who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 7 To re-elect as a director Professor Sir Frederick Holliday who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 8 To re-elect as a director Mr F L G Neale who retires in accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules and offers himself for re-election.
- 9 To re-appoint PricewaterhouseCoopers as auditors of the company and to authorise the directors to fix their remuneration.
- 10 To transact any other ordinary business of the company.

## As special business

- 11 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the directors be generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount equal to the authorised but unissued ordinary share capital of the company at the date of the passing of this resolution provided that:

  - a except as provided in paragraph b below, this authority shall expire 5 years after the date of this resolution, but may be previously revoked or varied by an ordinary resolution of the company; and
  - b the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired."
- 12 To consider and, if thought fit, to pass the following resolution as a special resolution:

"That, in substitution for and to the exclusion of any power previously conferred upon the directors in this regard, the directors be and they are hereby empowered to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) pursuant to the authority conferred by Resolution 11 above as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that such power shall be limited:

  - a to the allotment of equity securities in connection with a rights issue or other offer of securities in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them at a fixed record date (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory);
  - b to the allotment of equity securities pursuant to the exercise of options granted on or prior to the date hereof; and

c to the allotment (otherwise than pursuant to paragraph a or b above) of equity securities up to an aggregate nominal value equal to 10% of the issued ordinary share capital of the company at the date of the passing of this resolution

and shall expire on the conclusion of the next annual general meeting of the company after the passing of this resolution or, if earlier, on the expiry of 15 months from the passing of this resolution, save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired."

13 To consider, and if thought fit, to pass the following resolution as a special resolution:

"That the company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange Limited of ordinary shares of 5p each in the capital of the company provided that:

- a the maximum number of ordinary shares hereby authorised to be purchased is 10% of the company's issued ordinary share capital at the date of the passing of this resolution;
- b the minimum price which may be paid for an ordinary share shall be 5p per share;
- c the maximum price which may be paid for an ordinary share shall be not more than the lower of (i) net asset value per share and (ii) 105% of the average of the middle market quotations for an ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased; and
- d unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the conclusion of the next annual general meeting of the company or, if earlier, on the expiry of 15 months from the passing of this resolution, save that the company may before such expiry enter into a contract to purchase ordinary shares which will or may be completed wholly or partly after such expiry."

By order of the Board

**C D Mellor**  
Secretary

Northumberland House  
Princess Square  
Newcastle upon Tyne NE1 8ER

7 March 2000

#### NOTES

- 1 A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member of the company.
- 2 To be valid, a form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received by the company at its registered office not later than 11.30am on Tuesday 25 April 2000.
- 3 The company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered in the register of members of the company as at 6.00pm on Wednesday 26 April 2000 shall be entitled to attend or vote (whether on a show of hands or on a poll) at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 6.00pm on Wednesday 26 April 2000 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 4 None of the directors has a contract of service with the company. The register of directors' interests will be available for inspection on the day of the above meeting, at the place of the meeting, from at least 15 minutes prior to the meeting until its conclusion.

Proxy Form

NORTHERN 2 VCT PLC

Annual General Meeting – 27 April 2000

I/We .....  
(block capitals please)

of .....  
being a member of Northern 2 VCT PLC, hereby appoint

.....  
or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the first annual general meeting of the company to be held on 27 April 2000, notice of which was sent to shareholders with the directors' report and the financial statements for the period ended 31 January 2000, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number

For Against

1	To receive the financial statements for the period ended 31 January 2000	<input type="checkbox"/>	<input type="checkbox"/>
2	To declare a final dividend of 2.2p per share	<input type="checkbox"/>	<input type="checkbox"/>
3	To re-elect Dr M W Ridley as a director	<input type="checkbox"/>	<input type="checkbox"/>
4	To re-elect Mr A M Conn as a director	<input type="checkbox"/>	<input type="checkbox"/>
5	To re-elect Mr E M P Denny as a director	<input type="checkbox"/>	<input type="checkbox"/>
6	To re-elect Mr C G A Fletcher as a director	<input type="checkbox"/>	<input type="checkbox"/>
7	To re-elect Professor Sir Frederick Holliday as a director	<input type="checkbox"/>	<input type="checkbox"/>
8	To re-elect Mr F L G Neale as a director	<input type="checkbox"/>	<input type="checkbox"/>
9	To re-appoint PricewaterhouseCoopers as auditors and authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
11	To authorise the directors to allot and grant rights to subscribe for shares pursuant to Section 80 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>
12	To disapply Section 89 of the Companies Act 1985 in relation to certain allotments of equity securities	<input type="checkbox"/>	<input type="checkbox"/>
13	To authorise the company to make market purchases of ordinary shares in accordance with Section 166 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>

Signed: ..... Date: .....2000

Notes

- 1 A member wishing to appoint a person other than the Chairman of the meeting as proxy should insert the name and address of such person in the space provided.
- 2 Use of the proxy does not preclude a member from attending and voting in person.
- 3 Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
- 4 If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
- 5 To be valid, the proxy form, together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received at the registered office of the company, Northumberland House, Princess Square, Newcastle upon Tyne NE1 8ER, not later than 11.30 am on Tuesday 25 April 2000.

Attendance indication

Shareholders who intend to attend the annual general meeting are requested to place a tick in the box below in order to assist with administrative arrangements.

Annual general meeting   
I intend to attend the annual general meeting on 27 April 2000

Signed: ..... Date: .....2000



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FIRST FOLD

Northern 2 VCT PLC  
Northumberland House  
Princess Square  
Newcastle upon Tyne  
NE1 1BR

SECOND FOLD

