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2003

Northern 2 VCT PLC

Annual Report and Accounts 31 January 2003

Contents

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. The trust was launched in 1999 through a public offer which raised £22 million; a further £22 million was raised in a second public offer in 2001. The trust invests mainly in unquoted venture capital situations and aims to provide high long term returns to shareholders through a combination of dividend yield and capital growth.

Financial Summary

Year ended 31 January	2003	2002
Net assets	**£42,622,000**	£40,861,000
Net asset value per share	**94.5p**	90.5p
Return on ordinary activities before tax:		
Revenue	**£1,493,000**	£1,524,000
Capital	**£1,591,000**	£(3,018,000)
Return per share:		
Revenue	**2.3p**	3.1p
Capital	**4.2p**	(7.8)p
Dividend per share	**2.5p**	2.5p
Share price at end of year	**80p**	75p

Net asset value per share

As at 31 January

Dividend per share

Year ended 31 January

Chairman's Statement

Dr Matt Ridley

During the period under review our company has continued to build on the foundations laid in earlier years. We have recorded a modest increase in net asset value per share, added ten new holdings to our investment portfolio and maintained the annual dividend. Against a background of declining stock markets and economic uncertainty, these achievements are not to be underestimated.

Net asset value

The net asset value per share at 31 January 2003 was 94.5p per share, 4.4% up on the corresponding figure of 90.5p at 31 January 2002. Over the same period the FTSE All-Share index fell by 31.0% and the FTSE Small Cap (excluding investment companies) index by 31.4%.

Investment portfolio

During the year ten new venture capital investments were completed, and we now have a portfolio comprising 43 holdings with a total value of £22.9 million. Detailed information on our investments is given elsewhere in the annual report. Inevitably some of the individual companies concerned have not lived up to original expectations, but a number of others have made excellent progress and the overall condition of the portfolio is broadly satisfactory. Northern Venture Managers have continued to produce a good flow of new investment opportunities.

As the portfolio matures it will become increasingly important that successful exits are achieved, generating cash resources for new investment and for paying dividends to shareholders. The current economic and financial climate is not helpful to this process, but your directors review the portfolio at regular intervals with Northern Venture Managers with a view to ensuring that realisation opportunities have been identified and are being pursued.

Revenue and dividends

The revenue surplus before tax for the year was £1,493,000, compared with £1,524,000 in the preceding year. The revenue return per share fell from 3.1p to 2.3p, reflecting a move in assets from the listed fixed-interest portfolio into venture capital investments which initially tend to produce a lower yield. An interim dividend of 1.0p per share was paid in December 2002 and a final dividend of 1.5p is proposed, making a total of 2.5p – the same as last year. This is equivalent to a 4.2% gross yield to a higher-rate taxpayer subscribing for shares at 100p, and 5.2% if the 20% income tax relief on subscriptions is taken into account. The cumulative total of dividends declared by the company is 9.6p per share.

Share price and market liquidity

The company's mid-market share price increased from 75p to 80p over the 12 months to 31 January 2003. As before, there has been relatively little trading in the company's shares; during the year the company bought back 78,500 shares in the market for cancellation at an average price of 71p per share. A resolution will be proposed at the annual general meeting to renew the board's authority to purchase shares. Our managers continue to work with other VCT management groups to find ways of developing greater liquidity in the secondary market for VCT shares.

VCT qualifying status

PricewaterhouseCoopers have continued to monitor and report to the board on the company's compliance with the qualifying investment requirements laid down in the VCT legislation. We are advised that all the relevant conditions have been met to date, and we have until 31 January 2004 to meet the qualifying investment levels in respect of the funds raised through the share offers in 2001.

Corporate governance

We have continued to comply with current published guidance on best practice in corporate governance. In recent years this has been a fast-moving scene, with pronouncements and recommendations emerging at regular intervals. A corporate governance statement covering the key matters relevant to the company is set out on pages 18 and 19, and the directors' remuneration report now required by company law is on pages 16 and 17.

Future prospects

The past three years have been in many ways a challenging period in which to build a portfolio of venture capital investments. However we have managed to achieve the happy combination of raising funds near the top of the market and then investing them at a time when the markets are weak and there is good value to be had. We still have a strong reserve of liquid assets available for investment and we continue to see a good flow of new proposals.

There is little doubt that economic conditions will remain difficult for some time to come. This emphasises the need for careful management of our portfolio, so as to ensure that our companies will be in a position to take advantage when the upturn eventually comes. As was the case 12 months ago, it is difficult to be more than cautiously optimistic about the medium-term prospects for smaller businesses in the UK. But we are confident that we begin the new financial year with a solid base from which to work.

Dr Matt Ridley
Chairman

Directors

Dr Matt Ridley (Chairman), aged 45, is an author 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 47, is managing director of Northern Venture Managers Limited and a director of Edinburgh Fund Managers plc. He qualified as a chartered accountant with Price Waterhouse and was a co-founder of Northern Venture Managers in 1988. He is a non-executive director of Northern AIM VCT PLC.

Michael Denny MSI, aged 59, 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, Deep-Sea Leisure PLC and Postern Fund Management Limited and is a past chairman of the British Venture Capital Association.

Christopher Fletcher CA, aged 51, 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 67, is chairman of Northumbrian Water Limited, Brewin Dolphin Holdings plc, Northern Venture Trust PLC and Ondeo Services UK plc. He is a marine scientist and was vice-chancellor of the University of Durham from 1980 to 1990.

Frank Neale MBA, aged 52, is a partner in IRRfc, a private equity portfolio management business formerly known as Phildrew Ventures which was bought out from UBS Capital in 2001. He is a past vice-chairman of the British Venture Capital Association and is a director of a number of venture capital backed companies.

Advisers

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Investment Manager's Review

The investment process

Northern Venture Managers currently receives around 60 new investment enquiries each month through its offices in Newcastle upon Tyne, Edinburgh and Reading. 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. This work is usually done in-house by one or more of NVM's executives, with specialist outside assistance obtained when necessary. 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 eight and ten weeks.

Northern 2 VCT is entitled to be offered participation in every investment proposal developed by NVM, and in the majority of cases the company co-invests alongside other funds managed 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.

Investment activity

The flow of potential new deals has remained strong and during the year to 31 January 2003 Northern 2 VCT completed ten new venture capital investments at a cost of £6.4 million. In addition, 11 existing investments received follow-on funding totalling £1.5 million. The venture capital portfolio at 31 January 2003 comprised 43 holdings with an aggregate value of £22.9 million.

A listing of the main holdings in the portfolio is given on page 9, with information on the fifteen largest investments on pages 10 to 13. The charts at the foot of the page give an analysis of the portfolio by age, industry sector, financing stage and whether listed or unlisted.

The new investments completed during the year were as follows:

- **IRIS Technology** (£192,000) – remote telemetry data transmission systems, Lancaster/Aberdeen
- **Keith Prowse** (£790,000) – providers of corporate hospitality services, London
- **PM Group** (£232,000) – AiM-listed manufacturer of vehicle-mounted weighing devices, Bradford

- **Oxonica** (£142,000) – developer of nanomaterials technology, Oxford
- **Liquidlogic** (£301,000) – software for business management applications, Leeds
- **Horncastle Industries** (£1,083,000) – manufacturer of modular buildings and steel fabrications, Hull
- **Crantock Bakery** (£1,000,000) – supplier of premium hand-made Cornish pasties, Newquay
- **Arrow Industrial Group** (£735,000) – manufacturer of industrial doors and curtains, Hull
- **RBF Industries** (£650,000) – manufacturer of healthcare products and flexible heat shields, Southend-on-Sea
- **Longhirst Group** (£900,000) – provider of business training and conference services, Morpeth

Significant additional investments were made in **Alaric Systems** (£305,000), **Vectura** (£106,000), **DxS** (£192,000), **DMN Installations** (£144,000), **John Fredericks Plastics** (£194,000) and **WM Engineering** (£320,000).

Economic conditions have continued to be difficult for smaller unquoted companies, particularly those in the information technology and telecoms sectors where it has become a routine occurrence for customers to defer placing purchase orders or postpone delivery schedules. As a result some of our holdings have not made as much progress as we would have expected. The climate has tended to favour larger well-established businesses and we have seen notably good performances from **T J Brent, DMN Installations, Stainton Metal Company** and **John Fredericks Plastics.**

Relatively few realisations have been achieved during the year. Our investment in **Ai Qualitek** was sold to a Canadian corporation for £384,000, realising a gain of £149,000, and **Belcot Tool & Die** was acquired by the Aim-listed **Widney** generating sale proceeds of £250,000 and a gain of £100,000. The investment in **XtraServe** (£437,000) was sold to a competitor for a nominal amount after a period of difficult trading.

Our listed venture capital investments have had a poor year in terms of market value. In the biotechnology sector **Alizyme** saw a further fall in its share price despite reporting good progress on a number of fronts; in February 2003 the company successfully completed a £15 million share placing which should take it through to the point where commercial revenues come on stream. **BioFocus** achieved increased revenues but its share price fell on concerns that the future growth rate would not come up to expectations. **Fitzhardinge** (property consultants) made reasonable progress but **Mission Testing** (computer software) suffered from a delayed build-up in revenues and was sold to Capita Group following an agreed bid, realising a loss of £189,000 on our investment of £297,000. The only addition to the listed portfolio in the year was **PM Group,** which has performed well so far.

Investment Manager's Review

Valuation policy

Unlisted investments are valued in accordance with the accounting policy set out on page 25, 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 at 31 January 2003 the number of investments falling into each valuation category was as follows:

Category	Number of investments
Listed investments at market value:	
London Stock Exchange	1
AiM	5
Unlisted investments:	
at valuation based on historic earnings	5
at cost	18
at cost less provision	14
Total	43

The BVCA is in the process of issuing updated valuation guidelines, but these are not expected to lead to a material alteration in the company's approach.

VCT qualifying status

The company's progress towards meeting the Inland Revenue's conditions for VCT approval is carefully monitored by NVM, with the assistance of PricewaterhouseCoopers who have been retained to report to the board on this matter. The requirement to invest not less than 70% of the proceeds of the 1999 share issue in qualifying holdings by January 2002 was met in good time, and we are confident that the test will be satisfied in respect of subsequent share issues by the relevant dates.

Management of liquid funds

Chiswell Associates have continued to manage the company's portfolio of gilts and corporate bonds, from which funds are drawn down as required in order to complete new venture capital investments. At 31 January 2003 the funds managed by Chiswell Associates amounted to £17.3 million, on which a yield to maturity of 5.5% is currently being obtained.

Outlook

A year ago we felt that there were signs of improvement in the economy and the stock market, but it is now clear that conditions have deteriorated further. We have continued to work hard at generating new investment opportunities, with successful results, and will continue to do so over the coming year, selecting new investments carefully and monitoring their development closely. We believe the medium term prospects for the venture capital portfolio are good.

Alastair Conn
Managing Director,
Northern Venture Managers Limited

Investment Portfolio

as at 31 January 2003

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 10 to 13)			
DMN Installations	1,145	3,531	8.3
T J Brent	1,000	1,602	3.8
John Fredericks Plastics	907	1,594	3.7
Stainton Metal Company	1,002	1,552	3.6
TFB Group	700	1,379	3.2
Horncastle Industries	1,083	1,083	2.5
Crantock Bakery	1,000	1,000	2.3
Longhirst Group	900	900	2.1
T&D Packaging	800	800	1.9
Keith Prowse	790	790	1.9
Arrow Industrial Group	735	735	1.7
RBF Industries	650	650	1.5
Tolwood	673	504	1.2
West's Engineering Design	480	480	1.1
Fitzhardinge*	500	463	1.1
	12,365	**17,063**	**39.9**
Other venture capital investments			
Chorus Application Software	455	455	1.1
Alaric Systems	889	445	1.0
DxS	517	388	0.9
Widney	350	350	0.8
Lorantis Holdings	350	350	0.8
PM Group*	232	336	0.8
WM Engineering	640	320	0.8
Liquidlogic	301	301	0.7
BBI Holdings	301	301	0.7
Interlube Systems	545	273	0.7
Cedalion	260	260	0.6
Aiza	240	240	0.6
Vectura	201	201	0.5
Other investments each valued at less than £200,000	4,675	1,578	3.7
Total venture capital investments	**22,321**	**22,861**	**53.6**
Listed fixed-interest investments			
General Electric Capital Corporation 5$^1/_8$% 2004	1,995	2,022	4.7
Tesco 6% 2006	1,495	1,575	3.7
Pacific Life Funding 6$^1/_8$% 2006	1,494	1,547	3.6
BNG 7ʃ% 2003	1,518	1,529	3.6
General Electric Capital Corporation 6% 2003	1,500	1,500	3.5
Merrill Lynch 7$^3/_8$% 2007	1,424	1,469	3.5
Abbey National Treasury 8% 2003	1,254	1,258	3.0
AIG SunAmerica 6˚% 2004	1,095	1,121	2.6
Development Bank of Japan 9$^1/_8$% 2005	1,062	1,090	2.6
Abbey National Treasury 8ʃ% 2004	1,041	1,058	2.5
West LB Finance 8$^1/_8$% 2007	1,018	1,057	2.5
Lloyds Bank 7$^3/_8$% 2004	1,003	1,036	2.4
Swiss Re America 5$^5/_8$% 2005	1,014	1,023	2.4
Listed fixed-interest investments	**16,913**	**17,285**	**40.6**
Total fixed asset investments	**39,234**	**40,146**	**94.2**
Net current assets		**2,476**	**5.8**
Net assets		**42,622**	**100.0**

* Listed on Alternative Investment Market

Fifteen Largest Venture Capital Investments

DMN INSTALLATIONS LIMITED

Cost	**£1,145,000**
Valuation	**£3,531,000**
Basis of valuation	Earnings multiple
Equity held	14.6%
Business/location	Infrastructure installation for mobile telephone operators, Shrivenham
History	Management buy-out from private ownership, September 2001, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

Period ended 31 December	2001* £m
Sales	3.2
Profit before tax	0.6
Retained profit	0.4
Net assets	1.0

*4 months ended 31 December

T J BRENT LIMITED

Cost	**£1,000,000**
Valuation	**£1,602,000**
Basis of valuation	Earnings multiple
Equity held	8.5%
Business/location	Sub-contract civil engineering services to utility companies, Bodmin
History	Management buy-out from Pennon Group, December 2000, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

Year ended 31 March	2002 £m	2001* £m
Sales	**63.8**	16.7
Profit/(loss) before tax	**0.8**	(0.2)
Retained profit	**0.3**	—
Net assets	**1.1**	0.9

*3 months ended 31 March

JOHN FREDERICKS PLASTICS LIMITED

Cost	**£907,000**
Valuation	**£1,594,000**
Basis of valuation	Earnings multiple
Equity held	10.9%
Business/location	Manufacture of uPVC windows, doors and conservatories, Huddersfield
History	Management buy-in from private ownership, October 2001, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust
Dividends in year	£43,000

Audited financial information:

Period ended 31 October	2002* £m
Sales	**22.5**
Profit before tax	**2.1**
Retained profit	**0.9**
Net assets	**3.6**

*13 months ended 31 October

STAINTON METAL COMPANY LIMITED

Cost	**£1,002,000**
Valuation	**£1,552,000**
Basis of valuation	Earnings multiple
Equity held	16.1%
Business/location	Manufacture of metal lamp posts and lighting columns, Stockton-on-Tees
History	Management buy-out from Canadian corporation, October 2001, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

Year ended 27 September	2002 £m
Sales	**10.8**
Profit before tax	**0.6**
Retained profit	**0.3**
Net assets	**1.5**

Fifteen Largest Venture Capital Investments

TFB GROUP LIMITED

Cost	**£700,000**
Valuation	**£1,379,000**
Basis of valuation	Earnings multiple
Equity held	14.6%
Business/location	Development of software for professional practice administration, Fareham
History	Management buy-out from private ownership, May 1999, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust
Dividends in year	Nil

Audited financial information:

Year ended 30 September	2001 £m	2000 £m
Sales	**5.4**	6.3
Loss before tax	**(1.1)**	(0.1)
Retained loss	**(1.0)**	(0.2)
Net (liabilities)/assets	**(0.3)**	0.7

HORNCASTLE INDUSTRIES LIMITED

Cost	**£1,083,000**
Valuation	**£1,083,000**
Basis of valuation	Cost
Equity held	8.7%
Business/location	Manufacture of modular buildings and steel fabrications, Hull
History	Management buy-out from private ownership, September 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern AIM VCT, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2003

CRANTOCK BAKERY LIMITED

Cost	**£1,000,000**
Valuation	**£1,000,000**
Basis of valuation	Cost
Equity held	15.8%
Business/location	Manufacture of premium hand-made Cornish pasties, Newquay
History	Management buy-in from private ownership, October 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern AIM VCT, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2003

LONGHIRST GROUP LIMITED

Cost	**£900,000**
Valuation	**£900,000**
Basis of valuation	Cost
Equity held	15.8%
Business/location	Provision of training and conference facilities, Morpeth
History	Management buy-out from public sector ownership, December 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2004

Fifteen Largest Venture Capital Investments

T&D PACKAGING LIMITED

Cost	**£800,000**
Valuation	**£800,000**
Basis of valuation	Cost
Equity held	16.2%
Business/location	Manufacture of metal drums, Bradford
History	Management buy-out from T&D Industries, February 2000, led by NVM
Other NVM funds investing	Northern Venture Trust
Dividends in year	Nil

Audited financial information:

Year ended 31 January	**2002 £m**	2001 £m
Sales	**11.1**	13.2
Profit before tax	**—**	0.4
Retained profit	**0.1**	0.3
Net assets	**1.6**	1.5

KEITH PROWSE LIMITED

Cost	**£790,000**
Valuation	**£790,000**
Basis of valuation	Cost
Equity held	13.8%
Business/location	Provision of corporate hospitality, London
History	Management buy-out from Wembley plc, March 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 December 2002

ARROW INDUSTRIAL GROUP LIMITED

Cost	**£735,000**
Valuation	**£735,000**
Basis of valuation	Cost
Equity held	16.8%
Business/location	Manufacture of industrial doors and curtains, Hull
History	Management buy-in, October 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 October 2003

RBF INDUSTRIES LIMITED

Cost	**£650,000**
Valuation	**£650,000**
Basis of valuation	Cost
Equity held	13.8%
Business/location	Manufacturer of healthcare products and flexible heat shields, Southend-on-Sea
History	Management buy-out from private ownership, December 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2004

Fifteen Largest Venture Capital Investments

TOLWOOD LIMITED

Cost	**£673,000**
Valuation	**£504,000**
Basis of valuation	Cost less provision
Equity held	10.8%
Business/location	Manufacture of pressed steel components for automotive industry, Newton Aycliffe
History	Management buy-in/buy-out from private ownership, December 1999, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust
Dividends in year	Nil

Audited financial information:

Year ended 31 July	**2002** **£m**	2001* £m
Sales	**9.6**	11.3
Profit/(loss) before tax	**0.2**	(0.1)
Retained profit/(loss)	**0.1**	(0.1)
Net assets	**0.7**	0.6

* 16 months ended 31 July

WEST'S ENGINEERING DESIGN LIMITED

Cost	**£480,000**
Valuation	**£480,000**
Basis of valuation	Cost
Equity held	12.8%
Business/location	Engineering design and project management, Darlington
History	Management buy-out from Interserve Plc, January 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 December 2002

FITZHARDINGE PLC

Cost	**£500,000**
Valuation	**£463,000**
Basis of valuation	Mid-market price (AiM)
Equity held	1.9%
Business/location	Property consultants, London
History	AiM flotation in July 2001,raising a total of £6 million
Other NVM funds investing	Northern Investors Company, Northern AIM VCT
Dividends in year	£10,000

Audited financial information:

Year ended 31 December	**2002** **£m**	2001* £m
Sales	**38.2**	15.3
Profit before tax	**3.2**	2.0
Retained profit	**1.3**	1.1
Net assets	**28.4**	27.1

* 5 months ended 31 December

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 January 2003.

Activities and status

The principal activity of the company during the year 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 granted provisional approval as a venture capital trust by the Inland Revenue and has been listed on the London Stock Exchange since April 1999. The chairman's statement on pages 2 and 3 includes a review of developments during the year and of future prospects.

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 842AA of the Income and Corporation Taxes Act 1988. 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 year	£1,065,000
Appropriated as follows:	
Interim dividend paid – 1.0p per share	451,000
Final dividend proposed – 1.5p per share	677,000
Transferred from revenue reserve	(63,000)
	£1,065,000

Directors

The directors of the company during the year and their interests in the issued ordinary shares of 5p of the company were as follows:

	31 January 2003	1 February 2002
M W Ridley (Chairman)	200,000	200,000
A M Conn	100,000	100,000
E M P Denny	25,000	25,000
C G A Fletcher	40,504	40,504
Sir Frederick Holliday	10,100	10,100
F L G Neale	50,000	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 2003 and the date of this report.

Brief biographical notes on the directors are given on page 4.

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 2003.

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 3 to the financial statements.

Directors' Report

Mr A M Conn and Mr E M P Denny are executive directors of NVM and shareholders in its ultimate parent company, Edinburgh Fund Managers Group plc.

Purchase and cancellation of own shares

During the year the company purchased for cancellation 78,500 of its own shares with a nominal value of £3,925, representing 0.17% of the called-up share capital of the company, for a consideration of £56,000.

Fixed assets

Movements in fixed asset investments during the year 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.

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.

Independent auditors

During the year PricewaterhouseCoopers resigned as auditors. KPMG Audit Plc were appointed as independent auditors by the directors to fill the casual vacancy. They have indicated their willingness to continue as auditors of the company 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

17 March 2003

Directors' Remuneration Report

This report has been prepared by the directors in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies to the company for the first time this year. A resolution to approve the report will be proposed at the annual general meeting.

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below. Their report on these and other matters is set out on page 21.

Board of directors

The board currently comprises six directors, all of whom are non-executive. The board has established a Nomination Committee, whose members are:

Dr M W Ridley (Chairman)
Mr E M P Denny
Mr C G A Fletcher
Professor Sir Frederick Holliday
Mr F L G Neale

The Committee considers the selection and appointment of directors and makes recommendations to the board as to the level of directors' fees. The board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type.

Remuneration policy

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company. Mr A M Conn and Mr E M P Denny may become entitled to be granted share options under the terms of an incentive scheme established for the benefit of certain executives of Northern Venture Managers, as described in Note 3 to the financial statements.

Directors' fees were reviewed by the Nomination Committee during its meeting in January 2003, when it was recommended that fees should remain unchanged at £12,500 per annum for the chairman and £10,000 for other directors for the year ending 31 January 2004. The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration.

Directors' fees (audited information)

The fees paid to individual directors in respect of the years ended 31 January 2003 and 2002 are shown in the following table:

	Year ended 31 January 2003 £	Year ended 31 January 2002 £
M W Ridley (Chairman)	12,500	12,500
A M Conn	—	—
E M P Denny	10,000	10,000
C G A Fletcher	10,000	10,000
Sir Frederick Holliday	10,000	10,000
F L G Neale	10,000	10,000

Mr A M Conn waived his entitlement to directors' fees in respect of both years. Mr C G A Fletcher's fees were paid to Baillie Gifford & Co in consideration for his services.

Terms of appointment

The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and at least every three years thereafter. None of the directors has a service contract with the company. On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities. A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances.

Company performance

The graph below shows the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the period from April 1999 (when the company's shares were first listed) to 31 January 2003. The total return from a notional investment in the FTSE All-Share index over the same period is shown for comparison. This index is considered to be the most appropriate broad equity market index for comparative purposes.

By order of the Board

C D MELLOR

Secretary 17 March 2003

Return to shareholders in Northern 2 VCT PLC

(April 1999 = 100)

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 UK Listing Authority 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 KPMG Audit Plc, the company's independent 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 the directors' remuneration report on page 16.

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 are required to submit themselves for re-election at least every three years. 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 control

The directors have overall responsibility for keeping under review the effectiveness of the company's systems of internal 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 investment managers.

NVM has been appointed to manage the company's venture capital investments on a discretionary basis, and 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. 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, and in accordance with "Internal Controls: Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout the accounting year under review and up to the date of this report.

Risk management

The company's objective is to maximise tax-free income and capital returns to shareholders by investing in a portfolio mainly comprising holdings meeting the qualifying conditions for venture capital trusts. In order to achieve this objective the company will invest its funds primarily in unlisted equity holdings which, whilst potentially offering high returns, by their nature entail a greater degree of risk than investments in large listed companies. The directors aim to limit the risk attached to the portfolio as a whole by careful selection of investments and by maintaining a spread of investments in terms of financing stage and industry sector. The managers aim to ensure that an appropriate proportion of the company's assets are held in cash or readily realisable securities, so as to meet any investment funding commitments which may arise. The board reviews the managers' investment activities on a regular basis.

The company has little exposure to credit, cash flow or interest rate risk and no direct exposure to foreign currency risk.

The company has not undertaken any borrowings nor 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 year ended 31 January 2003 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 continue to apply the going concern basis in preparing the financial statements.

Shareholder Information

The Company

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. The trust was launched in 1999 through an offer for subscription which raised £22 million. In January 2001 a second public offer raised a further £22 million.

Northern Venture Managers is a specialist firm of venture capital managers based in Newcastle upon Tyne, Edinburgh and Reading and has been part of the Edinburgh Fund Managers group since June 2000. Northern Venture Managers also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern AIM VCT PLC and Northern 3 VCT PLC, and has a total of £140 million under management.

Venture Capital Trusts

VCTs were introduced in the Finance Act 1995 and 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 three 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 2004 is as follows:

October 2003	Interim report for six months to 31 July 2003 published
December 2003	Interim dividend paid
April 2004	Final dividend and preliminary results for year to 31 January 2004 announced; annual report and financial statements published
May 2004	Annual general meeting
June 2004	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 FT-SE Actuaries classification is "Investment Companies".

Share price information can also be obtained via the Northern Venture Managers website at www.nvm.co.uk.

Independent Auditors' Report

To the members of NORTHERN 2 VCT PLC

We have audited the financial statements on pages 22 to 32. 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 auditor's 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 are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 19, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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 regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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 affairs of the company as at 31 January 2003 and of its total return 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.

KPMG Audit Plc

KPMG AUDIT PLC
Chartered Accountants
and Registered Auditor
Edinburgh

17 March 2003

Statement of Total Return (incorporating the Revenue Account)

for the year ended 31 January 2003

		Year ended 31 January 2003			Year ended 31 January 2002		
	Notes	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments							
Realised on disposals	8	—	(494)	(494)	—	(310)	(310)
Unrealised revaluation movements	8	—	2,978	2,978	—	(2,001)	(2,001)
		—	2,484	2,484	—	(2,311)	(2,311)
Income	2	1,983	—	1,983	1,944	—	1,944
Investment management fee	3	(297)	(893)	(1,190)	(236)	(707)	(943)
Other expenses	4	(193)	—	(193)	(184)	—	(184)
Return on ordinary activities before tax		1,493	1,591	3,084	1,524	(3,018)	(1,494)
Tax on ordinary activities	5	(428)	289	(139)	(413)	197	(216)
Return on ordinary activities after tax		1,065	1,880	2,945	1,111	(2,821)	(1,710)
Dividends	6	(1,128)	—	(1,128)	(1,130)	—	(1,130)
Transfer to reserves	15	(63)	1,880	1,817	(19)	(2,821)	(2,840)
Return per share	7	2.3p	4.2p	6.5p	3.1p	(7.8)p	(4.7)p
Dividend per share	6	2.5p	—	2.5p	2.5p	—	2.5p

- 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

Balance Sheet

as at 31 January 2003

	Notes	31 January 2003 £000	31 January 2002 £000
Fixed assets			
Investments	8	40,146	33,486
Current assets			
Investments	11	—	1,500
Debtors	12	731	877
Cash at bank		2,614	5,862
		3,345	8,239
Creditors (amounts falling due within one year)	13	(869)	(864)
Net current assets		2,476	7,375
Net assets		42,622	40,861
Capital and reserves			
Called-up equity share capital	14	2,254	2,258
Share premium		33,761	33,761
Capital redemption reserve	15	5	1
Special reserve	15	7,932	7,988
Capital reserve – realised	15	(2,273)	(1,175)
– unrealised	15	912	(2,066)
Revenue reserve	15	31	94
Total equity shareholders' funds	16	42,622	40,861
Net asset value per share	17	94.5p	90.5p

- The accompanying notes are an integral part of this statement

The financial statements on pages 22 to 32 were approved by the directors on 17 March 2003 and are signed on their behalf by:

Dr M W Ridley
Director

~~C G A~~ Fletcher
Director

Cash Flow Statement

for the year ended 31 January 2003

	Year ended 31 January 2003 £000	Year ended 31 January 2003 £000	Year ended 31 January 2002 £000	Year ended 31 January 2002 £000
Cash flow statement				
Net cash inflow from operating activities		738		345
Taxation				
Corporation tax paid		(125)		(216)
Financial investment				
Purchase of investments	(14,365)		(21,428)	
Sale/repayment of investments	10,189		7,187	
Net cash outflow from financial investment		(4,176)		(14,241)
Equity dividends paid		(1,129)		(792)
Cash outflow before use of liquid resources and financing		(4,692)		(14,904)
Financing				
Issue of ordinary shares	—		22,042	
Share issue expenses	—		(1,102)	
Purchase of ordinary shares for cancellation	(56)		(18)	
Net cash (outflow)/inflow from financing		(56)		20,922
Net cash inflow/(outflow) from management of liquid resources		1,500		(1,500)
Increase/(decrease) in cash at bank		(3,248)		4,518

Reconciliation of revenue before tax to net cash flow from operating activities

	Year ended 31 January 2003 £000	Year ended 31 January 2002 £000
Net revenue before taxation	1,493	1,524
Decrease/(increase) in debtors	146	(238)
Decrease in creditors	(8)	(216)
Management fees charged to capital reserve	(893)	(707)
Other expenses charged to special reserve	—	(18)
Net cash inflow from operating activities	738	345

Analysis of movement in net funds

	1 February 2002 £000	Cash flows £000	31 January 2003 £000
Cash at bank	5,862	(3,248)	2,614
Short term investments	1,500	(1,500)	—
Net funds	7,362	(4,748)	2,614

Notes to the Financial Statements

for the year ended 31 January 2003

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, 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 arms-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 normally 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

Deferred tax is recognised in respect of all timing differences which have originated but not yet reversed by the balance sheet date.

Notes to the Financial Statements

for the year ended 31 January 2003

2 Income	Year ended 31 January 2003 £000	Year ended 31 January 2002 £000
Franked investment income		
Unlisted companies	54	35
Listed companies	13	2
Interest receivable		
Government stocks and bonds	1,181	1,115
Bank deposits	106	370
Loans to unlisted companies	626	422
Sundry income	3	—
	1,983	1,944

3 Investment management fee	Year ended 31 January 2003 Revenue £000	Year ended 31 January 2003 Capital £000	Year ended 31 January 2002 Revenue £000	Year ended 31 January 2002 Capital £000
Investment management fee	253	760	201	602
Irrecoverable VAT thereon	44	133	35	105
	297	893	236	707

Northern Venture Managers Limited (NVM) provides investment management and secretarial services to the company under a management agreement which runs for a period of five years with effect from 20 December 1999 and may be terminated at any time thereafter by not less than twelve months' notice given by either party. The company may also terminate the agreement on twelve months' notice in the event of a change of control of NVM or of its ultimate parent company, Edinburgh Fund Managers Group plc.

NVM receives a management fee, payable quarterly in advance, at the rate of 2.5% of gross assets less current liabilities calculated at half-yearly intervals as at 31 July and 31 January. NVM is responsible for paying the fees of Chiswell Associates Limited in respect of the management of the listed fixed-interest portfolio.

NVM also provides administrative and secretarial services to the company for a fee of £37,000 per annum (linked to the movement in RPI), which is included in other expenses (note 4).

4 Other expenses	Year ended 31 January 2003 £000	Year ended 31 January 2002 £000
Administrative and secretarial services	37	36
Directors' remuneration	53	53
Auditors' remuneration – audit services	9	6
– non-audit services	—	8
Legal and professional expenses	16	6
Irrecoverable VAT	19	17
Other expenses	59	58
	193	184

Information on directors' remuneration is given in the directors' remuneration report on pages 16 and 17.

Notes to the Financial Statements

for the year ended 31 January 2003

5 Tax on ordinary activities	Year ended 31 January 2003 Revenue £000	Capital £000	Year ended 31 January 2002 Revenue £000	Capital £000
(a) Analysis of charge for the year				
Corporation tax payable/(recoverable)	428	(289)	413	(197)
(b) Tax reconciliation				
Return on ordinary activities before tax	1,493	1,591	1,524	(3,018)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30%	448	477	457	(905)
Effect of:				
UK dividends not subject to tax	(20)	—	(11)	—
Capital returns not subject to tax	—	(745)	—	693
Marginal relief	—	(21)	(33)	15
Current tax charge/(credit) for the year	428	(289)	413	(197)

6 Dividends	Year ended 31 January 2003 Pence per share	£000	Year ended 31 January 2002 Pence per share	£000
Interim dividend paid	1.0	451	1.0	452
Final dividend proposed	1.5	677	1.5	678
	2.5	1,128	2.5	1,130

7 Return per share

The revenue return per share is based on net revenue from ordinary activities after tax of £1,065,000 (2002 £1,111,000) and on 45,119,406 (2002 36,108,250) shares, being the weighted average number of shares in issue during the year.

The capital return per share is based on net realised and unrealised capital gains for the period of £1,880,000 (2002 capital losses of £2,821,000) and on 45,119,406 (2002 36,108,250) shares, being the weighted average number of shares in issue during the year.

8 Fixed asset investments	31 January 2003 £000	31 January 2002 £000
Venture capital investments		
Unlisted	21,656	12,213
Listed	1,205	1,615
Listed fixed interest investments	17,285	19,658
	40,146	33,486

8 Fixed asset investments continued

Movements in investments during the year are summarised as follows:

	Venture capital – unlisted £000	Venture capital – listed £000	Listed fixed interest £000	Total £000
Book cost at 1 February 2002	13,870	2,252	19,430	35,552
Unrealised appreciation at 1 February 2002	(1,657)	(637)	228	(2,066)
Valuation at 1 February 2002	12,213	1,615	19,658	33,486
Movements in the year:				
Purchases at cost	7,662	231	6,472	14,365
Disposals – proceeds	(1,048)	(126)	(9,015)	(10,189)
– net realised gains/(losses) on disposal	(203)	(317)	26	(494)
Movement in unrealised appreciation	3,032	(198)	144	2,978
Valuation at 31 January 2003	21,656	1,205	17,285	40,146
Comprising:				
Book cost at 31 January 2003	20,281	2,040	16,913	39,234
Unrealised appreciation at 31 January 2003	1,375	(835)	372	912
	21,656	1,205	17,285	40,146

9 Unlisted investments

The cost and carrying value of material investments in unlisted companies held at 31 January 2003 are shown below. For this purpose, any investment included in the table of the fifteen largest venture capital investments on pages 10 to 13, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 January 2003		31 January 2002	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
DMN Installations Limited				
Ordinary shares	245	2,631	100	100
Convertible loan stock	900	900	900	900
	1,145	3,531	1,000	1,000
T J Brent Limited				
Ordinary shares	138	740	138	425
Loan stock	862	862	862	862
	1,000	1,602	1,000	1,287
John Fredericks Plastics Limited				
Ordinary shares	81	768	77	77
Redeemable ordinary shares	310	310	310	310
Loan stock	516	516	326	326
	907	1,594	713	713
Stainton Metal Company Limited				
Ordinary shares	110	660	108	108
Convertible loan stock	892	892	892	892
	1,002	1,552	1,000	1,000
TFB Group Limited				
Ordinary shares	117	796	117	—
Loan stock	583	583	583	525
	700	1,379	700	525

9 Unlisted investments continued	31 January 2003 Total cost £000	31 January 2003 Carrying value £000	31 January 2002 Total cost £000	31 January 2002 Carrying value £000
Horncastle Industries Limited				
Ordinary shares	217	217	—	—
Loan stock	866	866	—	—
	1,083	1,083	—	—
Crantock Bakery Limited				
Ordinary shares	214	214	—	—
Loan stock	786	786	—	—
	1,000	1,000	—	—
Longhirst Group Limited				
Ordinary shares	360	360	—	—
Loan stock	540	540	—	—
	900	900	—	—
T&D Packaging Limited				
Ordinary shares	267	267	267	267
Loan stock	533	533	533	533
	800	800	800	800
Keith Prowse Limited				
Ordinary shares	81	81	—	—
Loan stock	709	709	—	—
	790	790	—	—
Arrow Industrial Group Limited				
Ordinary shares	105	105	—	—
Loan stock	630	630	—	—
	735	735	—	—
RBF Industries Limited				
Ordinary shares	65	65	—	—
Loan stock	585	585	—	—
	650	650	—	—
Tolwood Limited				
Ordinary shares	135	—	135	135
Loan stock	538	504	538	538
	673	504	673	673
West's Engineering Design Limited				
Ordinary shares	80	80	80	80
Loan stock	400	400	400	400
	480	480	480	480
Chorus Application Software Limited				
Ordinary shares	65	65	65	65
Loan stock	390	390	390	390
	455	455	455	455

9 Unlisted investments continued	31 January 2003 Total cost £000	31 January 2003 Carrying value £000	31 January 2002 Total cost £000	31 January 2002 Carrying value £000
Alaric Systems Limited				
Ordinary shares	889	445	584	584
Interlube Systems Limited				
Ordinary shares	50	—	50	—
Loan stock	495	273	450	375
	545	273	500	375
Barony Universal Products plc				
Ordinary shares	65	65	65	272
Loan stock	130	130	130	130
	195	195	195	402
Belcot Tool & Die Limited				
Ordinary shares	—	—	150	225
Loan stock	—	—	350	350
	—	—	500	575

Additional information relating to investments in unlisted companies is given on pages 10 to 13.

10 Significant interests

Details of shareholdings in those companies where the company's holding at 31 January 2003 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 stated)	Number held	Proportion of class held
Arrow Industrial Group Limited	Ordinary	16,800	16.8%
Barony Universal Products plc	Ordinary (10p)	127,400	12.7%
Chorus Application Software Limited	Ordinary (10p)	38,485	12.5%
CLM Building Services Limited	Ordinary	10,567	10.5%
CQC Limited	Ordinary (10p)	16,667	10.0%
Crantock Bakery Limited	Ordinary	27,500	15.8%
DMN Installations Limited	Ordinary (10p)	35,714	14.6%
DxS Limited	Ordinary (10p)	27,560	12.7%
Interlube Systems Limited	Ordinary (10p)	50,000	10.0%
John Fredericks Plastics Limited	Ordinary	63,937	10.9%
	Preference	310,000	15.5%
Keith Prowse Limited	Ordinary (10p)	38,021	13.8%
Longhirst Group Limited	Ordinary (10p)	158,400	15.8%
RBF Industries Limited	Ordinary	33,607	17.6%
SMP Multi-Shot Limited	Ordinary (10p)	22,098	11.0%
Stainton Metal Company Limited	Ordinary	64,516	16.1%
T&D Packaging Limited	Ordinary (10p)	162,312	16.2%
TFB Group Limited	Ordinary (10p)	58,333	14.6%
Tolwood Limited	Ordinary	48,420	10.8%
West's Engineering Design Limited	Ordinary	90,000	12.8%

11 Current asset investments

Current asset investments at 31 January 2002 comprised UK certificates of deposit maturing within three months of the balance sheet date.

12 Debtors	31 January 2003 £000	31 January 2002 £000
Prepayments and accrued income	731	877

13 Creditors (amounts falling due within one year)	31 January 2003 £000	31 January 2002 £000
Accruals and deferred income	57	65
Corporation tax payable	135	121
Proposed dividend	677	678
	869	864

14 Called-up equity share capital	31 January 2003 £000	31 January 2002 £000
Authorised:		
60,000,000 (2002 60,000,000) ordinary shares of 5p	3,000	3,000
Allotted and fully paid:		
45,084,105 (2002 45,162,605) ordinary shares of 5p	2,254	2,258

During the year the company purchased 78,500 ordinary shares for cancellation at a cost of £56,000.

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.

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.

Notes to the Financial Statements

for the year ended 31 January 2003

15 Reserves	Capital redemption reserve £000	Special reserve £000	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
At 1 February 2002	1	7,988	(1,175)	(2,066)	94
Shares purchased for cancellation	4	(56)	—	—	—
Realised on disposal of investments	—	—	(494)	—	—
Management fee capitalised net of associated taxation	—	—	(604)	—	—
Net increase in unrealised appreciation	—	—	—	2,978	—
Net revenue retained for the year	—	—	—	—	(63)
At 31 January 2003	5	7,932	(2,273)	912	31

16 Reconciliation of movement in equity shareholders' funds	Year ended 31 January 2003 £000	Year ended 31 January 2002 £000
Return on ordinary activities after tax	2,945	(1,710)
Net proceeds of share issue	—	20,921
Shares purchased for cancellation	(56)	(18)
Dividends	(1,128)	(1,130)
Net addition to equity shareholders' funds	1,761	18,063
Equity shareholders' funds at 1 February 2002	40,861	22,798
Equity shareholders' funds at 31 January 2003	42,622	40,861

17 Net asset value per share

The calculation of net asset value per share as at 31 January 2003 is based on net assets of £42,622,000 (2002 £40,861,000) divided by the 45,084,105 (2002 45,162,605) ordinary shares in issue at that date.

Notice of Annual General Meeting

Notice is hereby given that the fourth annual general meeting of Northern 2 VCT PLC will be held at the Bioscience Centre, International Centre for Life, Times Square, Newcastle upon Tyne at 11.30am on Thursday 29 May 2003 for the following purposes:

As ordinary business

1 To receive the financial statements for the year ended 31 January 2003 and the directors' and auditors' reports thereon.

2 To declare a final dividend of 1.5p per share in respect of the year ended 31 January 2003.

3 To re-elect as a director Mr C G A Fletcher who retires by rotation in accordance with the Articles of Association and offers himself for re-election.

4 To re-elect as a director Mr F L G Neale who retires by rotation in accordance with the Articles of Association and offers himself for re-election.

5 To approve the directors' report on remuneration in respect of the year ended 31 January 2003.

6 To re-appoint KPMG Audit Plc as independent auditors of the company and to authorise the directors to fix their remuneration.

7 To transact any other ordinary business of the company.

As special business

8 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 passed at the annual general meeting of the company held on 27 April 2000 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 of £225,420;

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."

9 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 to make one or more market purchases (within the meaning of Section 163(3) of that Act) on the London Stock Exchange Limited of ordinary shares of 5p each in the capital of the company provided that:

Notice of Annual General Meeting

a the maximum number of ordinary shares hereby authorised to be purchased is 4,508,410, representing 10% of the company's issued ordinary share capital;

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 17 March 2003

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

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. The appointment of a proxy does not preclude a member from attending and voting in person at the meeting should he subsequently decide to do so.

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 Lloyds TSB Registrars at The Causeway, Worthing BN99 6DA not later than 11.30am on Tuesday 27 May 2003.

3 The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the company as at 6.00pm on Wednesday 28 May 2003 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 28 May 2003 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 – 29 May 2003

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 fourth annual general meeting of the company to be held on 29 May 2003, notice of which was sent to shareholders with the directors' report and financial statements for the year ended 31 January 2003, 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 year ended 31 January 2003	☐	☐
2	To declare a final dividend of 1.5p per share in respect of the year ended 31 January 2003	☐	☐
3	To re-elect Mr C G A Fletcher as a director	☐	☐
4	To re-elect Mr F L G Neale as a director	☐	☐
5	To approve the directors' report on remuneration in respect of the year ended 31 January 2003	☐	☐
6	To re-appoint KPMG Audit Plc as independent auditors and authorise the directors to fix their remuneration	☐	☐
8	To disapply Section 89 of the Companies Act 1985 in relation to certain allotments of equity securities	☐	☐
9	To authorise the company to make market purchases of ordinary shares in accordance with Section 166 of the Companies Act 1985	☐	☐

Signed: ______________________ Date: ______________ 2003

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 form does not preclude a member from attending and voting in person.

3 Where this proxy form 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 by Lloyds TSB Registrars at The Causeway, Worthing, BN99 6DA not later than 11.30am on Tuesday 27 May 2003.

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.

I intend to attend the annual general meeting at 11.30am on Thursday 29 May 2003 at the Bioscience Centre, International Centre for Life, Times Square, Newcastle upon Tyne ☐

Signed: ______________________ Date: ______________ 2003

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BUSINESS REPLY SERVICE
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First Fold

LLOYDS TSB REGISTRARS
THE CAUSEWAY
WORTHING
BN99 6ZR

Second fold

Northern 2 VCT PLC
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