



# Northern 2 VCT PLC

Annual Report and Financial Statements

31 March 2023



# WELCOME

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management Limited.

It invests mainly in unquoted venture capital holdings in growing UK companies and aims to provide long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

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# Financial summary

	Year ended 31 March 2023	Year ended 31 March 2022
<b>Net assets</b>	<b>£109.6m</b>	£104.9m
<b>Net asset value per share</b>	<b>59.0p</b>	64.4p
<b>Return per share</b>		
Revenue	(0.2)p	0.2p
Capital	(1.7)p	0.4p
Total	(1.9)p	0.6p
<b>Dividend per share declared in respect of the period</b>		
Interim dividend	2.0p	2.0p
Proposed final dividend	1.3p	1.6p
Total	3.3p	3.6p
<b>Cumulative return to shareholders since launch</b>		
Net asset value per share	59.0p	64.4p
Dividends paid per share*	136.0p	132.4p
Net asset value plus dividends paid per share	195.0p	196.8p
<b>Mid-market share price at end of period</b>	<b>54.5p</b>	61.5p
<b>Share price discount to net asset value</b>	<b>7.6%</b>	4.5%
<b>Annualised tax-free dividend yield**</b>	<b>5.1%</b>	5.0%

\* Excluding proposed final dividend payable on 18 August 2023

\*\* Based on net asset value per share at the start of the year

Definitions of the terms and alternative performance measures used in this report can be found in the Glossary of terms on page 80.



For additional information visit our investor area online  
[www.mercia.co.uk/vcts/](http://www.mercia.co.uk/vcts/)



## Key dates during 2023

Results announced

**15 June**

Shares quoted ex dividend

**20 July**

Record date for final dividend

**21 July**

Annual General Meeting\*

**28 July 11:30am**

Final dividend paid

**18 August**

\* To be convened at Reed Smith LLP, Broadgate Tower, 20 Primrose Street, London, EC2A 2RS with optional remote access for shareholders through an online webinar facility

# Venture Capital portfolio summary

9

Number of new investments this year



£16.0m

Invested in new and follow on investments

6

Number of full realisations this year



£71.7m

Portfolio valuation at 31 March 2023

4.8 years  
Average age of investment



£70.3m

Cost of investments



19

Portfolio companies that received follow on capital this year

£1.3m

Average cost of investment



£12.1m

Proceeds from all realisations in year

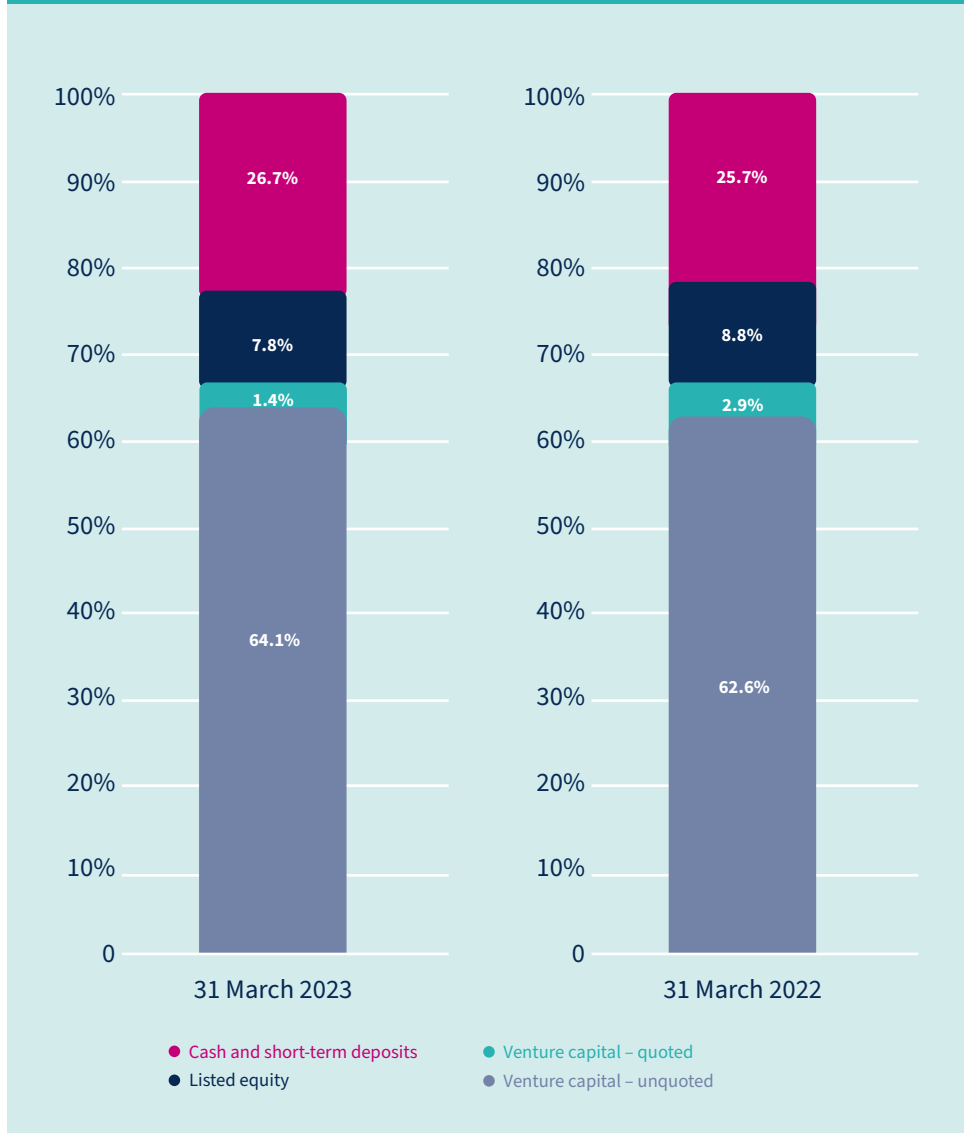
55

Portfolio companies



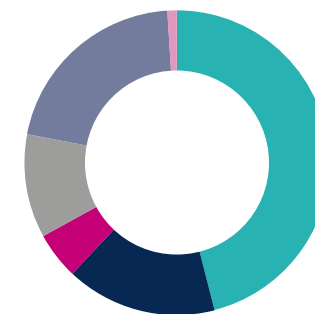
## Venture capital portfolio summary *continued*

### Asset allocation



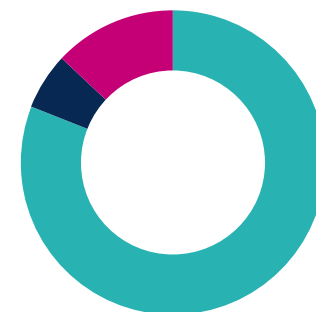
### Age of investment

Up to 1 year	16%
1-3 years	16%
3-5 years	27%
5-7 years	23%
7+ years	18%



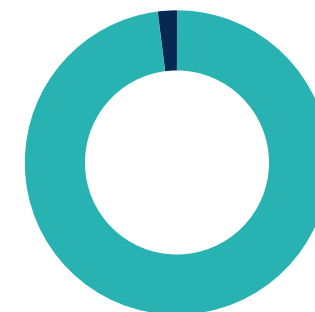
### Industry sector

Software/electronics	46%
Consumer	16%
Industrial/manufacturing	5%
Services	11%
Healthcare/biotechnology	21%
Other	1%



### Financing stage

Growth capital – post November 2015	81%
Growth capital – pre November 2015	6%
Management buyout – pre November 2015	13%



### Quotation

Unquoted	98%
AIM	2%

Note: these charts are calculated by value of investments.



# Investment

Reach



Investment Manager office locations

**55** Total venture capital holdings

**12** North West

**1** Wales

**3** West Midlands

**2** South West

**4** Scotland

**3** North East

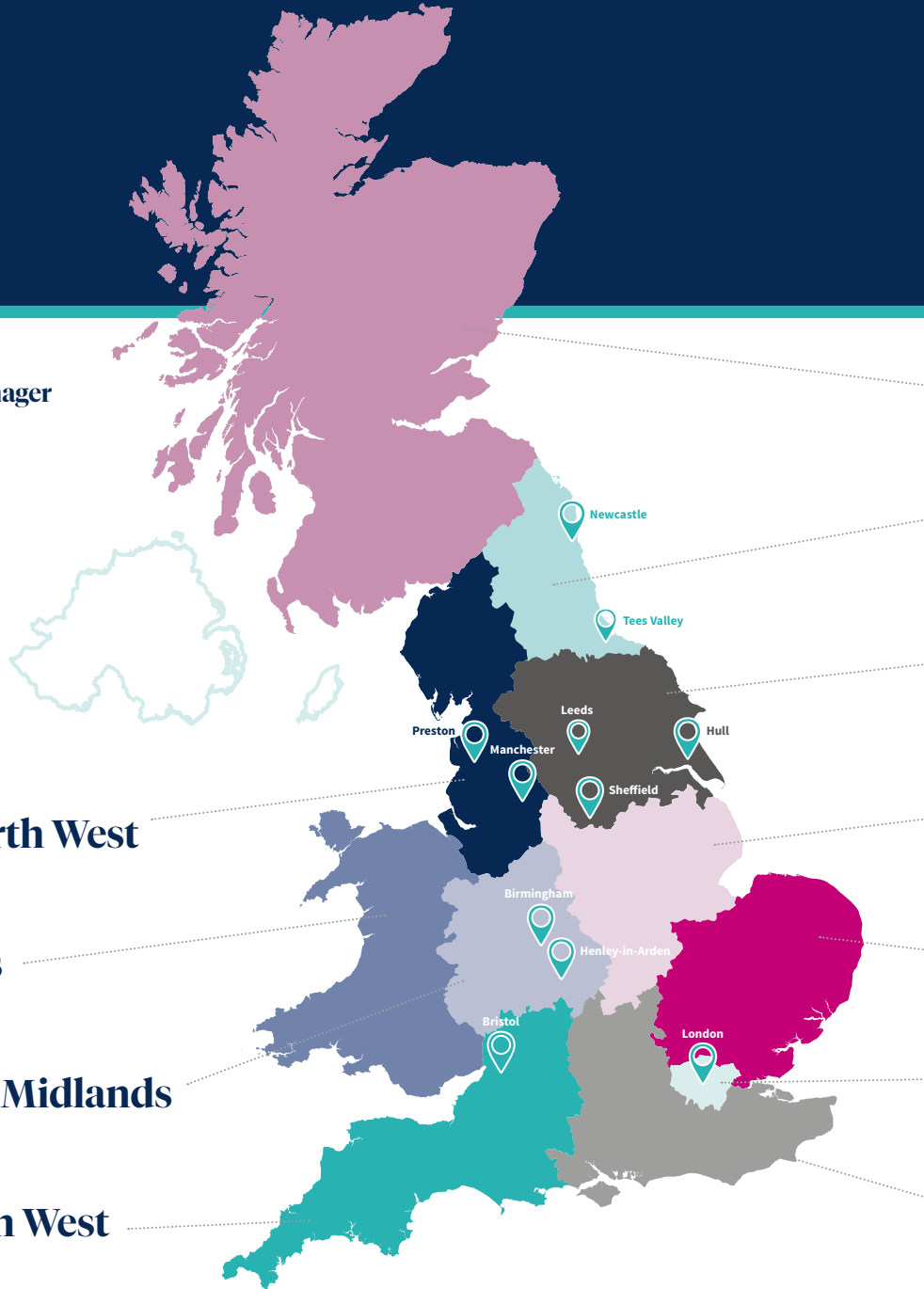
**3** Yorkshire/  
Humberside

**1** East Midlands

**2** Anglia

**16** London

**8** South East



# Chair's Statement



David Gravells MSc JP  
Chair

Uncertainty in the economic landscape persisted over the past year. Inflationary pressures resulted in interest rate increases and volatility in the financial markets which presented challenges. While consumer facing companies have been particularly impacted by the high-inflation environment, many quoted equity indices experienced large declines and company valuations across most sectors fell from previous highs.

Against this challenging backdrop, it is pleasing to report that the valuation of our unquoted portfolio increased in the year, supported by a number of excellent exits both in the year and immediately post year end. Realisation of our unquoted

“Despite a challenging macroeconomic outlook with high inflation and rising interest rates, we will continue to provide patient capital to support innovative early stage businesses in the UK.

investments in the year generated proceeds of £12.1 million, delivering a £6.2 million return on initial cost of £5.9 million. Investment activity has remained high, with £16.0 million invested in 27 promising early stage businesses.

Despite declining business confidence generally, our public share offer of £6 million was fully subscribed and I would like to thank existing shareholders for their continued support and warmly welcome new investors. Proceeds from the share offer together with sales proceeds from investments mean that the Company is well positioned both to pursue new opportunities to support small and medium businesses and to work with existing portfolio companies to realise their growth plans.

#### Results and dividend

In the year ended 31 March 2023 the Company delivered a return of minus 1.9 pence per share (2022: 0.6 pence), equivalent to minus 3.0% of the opening net asset value (NAV) per share. Gains in the unquoted portfolio were offset by declines in our listed investments, particularly musicMaggpie, a legacy AIM investment that was impacted both by challenging trading conditions and

the repricing of AIM shares generally. The NAV per share as at 31 March 2023, after deducting dividends paid during the year totalling 3.6 pence, was 59.0 pence compared with 64.4 pence as at 31 March 2022.

Several investment realisations were completed during the year, with a number of notable transactions either completed or in progress as at the balance sheet date. One particular highlight after the balance sheet date was the sale of Evotix, sold in May 2023, for proceeds of £11.5 million compared to an original cost of £2.5 million, a 4.6x return, which is particularly welcome as it was an early-stage investment made since the VCT rule changes in 2015; the realised value has been represented in the Directors' unquoted valuations as at the balance sheet date. Other highlights were the sales of Lineup Systems and Knowledgemotion that registered returns of 7.8 times and 1.7 times cost respectively over their lifetimes (inclusive of loan interest received). These gains contributed to an overall increase of £0.6 million in the Directors' valuation of the unquoted portfolio.

The unquoted valuations were also impacted by a number of write-downs including the failure of Channel Mum,

which was unfortunately put into liquidation after facing challenging trading conditions. In addition the Company's investment in Axial was sold at a loss following its loss of several large contracts.

In 2018 we set an objective of paying an annual dividend representing a yield of at least 5% of the opening NAV per share in each year whilst endeavouring to protect the NAV from erosion over the medium term. Over the three years since 31 March 2020 the NAV per share has increased by 10% from 53.5 pence to 59.0 pence, after taking account of dividend payments totalling 14.6 pence over the same period. We have therefore broadly continued to meet our objective.

Having already declared an interim dividend of 2.0 pence per share which was paid in January 2023, your Directors now propose a final dividend of 1.3 pence per share. The total of 3.3 pence per share is equivalent to 5.1% of the opening NAV of 64.4 pence per share. The proposed final dividend will be paid on 18 August 2023, subject to approval by shareholders at the Annual General Meeting.

The target dividend yield will remain subject to regular review and the level of future dividend distributions will continue to reflect the level of returns generated by the Company in the medium term, the timing of investment realisations, the availability of distributable reserves and continuing compliance with the VCT scheme rules.



## Investment portfolio

The Company continues to be a generalist investor, with large allocations in the software, healthcare/ bio-technology and consumer sectors. The older investments made under the 'pre 2015' rules continue to be realised, and comprised 19% by value of the Company's investments as of the balance sheet date. This mature portfolio will continue to reduce as a percentage of overall capital invested as we realise our holdings in these investments, and we expect that it will continue to provide a series of profitable exits in the years to come, supporting the overall return of the Company.

Over the year the Company saw reductions in the valuations of its listed investments, notably the continued fall in value of AIM listed musicMagpie and the listed portfolio of investments, in line with the decline in investment markets generally. Overall, the value of the Company's listed investments declined by £1.9 million of which £1.0 million was MusicMagpie. Despite the marked-to-market losses of the listed portfolio that is held to generate a yield on cash pending investment, the portfolio has generated annualised total returns of 3.1% since investment in 2018 and has therefore provided a positive contribution to NAV in what has been a very low interest rate environment. Your Directors always consider the state of the investment markets and how these might impact the valuations of the unquoted venture portfolio and have updated valuations to reflect current market conditions where appropriate.

Investment levels have remained high and exceeded the previous year's record breaking deployment level, with £10.0 million of capital provided to nine new venture capital investments and £6.0 million of follow on capital invested into 19 existing portfolio investments, including a second tranche of investment into one company that was new in the year (previous year: £14.7 million combined).

## Share offer and liquidity

As a result of the public share offer launched in January 2023, 10,290,184 new ordinary shares were issued in April 2023 for gross proceeds of £6.0 million.

Following the smaller non-prospectus top-up offer in 2022/23, and taking into account the increased rate of investment that has now been sustained for a second successive year, the Board is pleased to announce that the Company will launch a prospectus offer in the 2023/24 tax year for £14.0 million, with an over-allotment facility of £6.0 million. This offer will launch in September 2023, and full details will be published shortly.

Our dividend investment scheme continues to operate. This enables shareholders to invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions. During the year around 15% of total dividends were reinvested by shareholders.

We have maintained our policy of being willing to buy back the Company's shares in the market when necessary in order to maintain liquidity, at a 5% discount to NAV. During the year, a total of 4,673,456 shares were repurchased for cancellation, equivalent to approximately 2.5% of the opening share capital.

## Changes to the performance-related management fee ('performance fees')

Following a review of current arrangements by the Board, included in the Circular for the upcoming General Meeting is a resolution proposing changes to the Management Agreement in relation to the performance-related management fee with the Manager. If approved by shareholders, these changes will be implemented by a deed of variation to the Company's existing Management Agreement.

The changes in VCT legislation in 2015 required the Company to focus new investment on earlier stage companies which, by their nature, are higher risk and therefore likely to deliver more volatile investment returns. A number of changes are proposed in order to better align future performance fees with shareholder returns as well as to bring the performance fee methodology more in line with other market participants and to harmonise its application across the Northern VCTs. The changes are designed to ensure strong returns above a hurdle are delivered

consistently, not just in a single year, with a requirement that any decline in shareholder NAV must be made wholly good before a performance fee is payable to the Manager. Full details of the changes are set out in the accompanying Circular for the general meeting, which will be held immediately after the Annual General Meeting on 29 July 2023

## Responsible Investment

The Company is mindful of its Environmental, Social and Governance (ESG) responsibilities and we have outlined our evolving approach on pages 34 to 39.

## VCT legislation and qualifying status

The Company has continued to meet the stringent and complex qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The Manager monitors the position closely and reports regularly to the Board. Philip Hare & Associates LLP has continued to act as independent adviser to the Company on VCT taxation matters.

The upcoming 2025 'sunset clause' was a European state aid requirement when the VCT scheme received state aid approval, which means that without a change in legislation investors will not receive upfront tax relief when investing in VCTs from 6 April 2025. While the government has signalled that it will extend the scheme, to date no formal legislation has been introduced to enact this commitment. The Company and the Manager will

continue to monitor progress in this area. The Board considers that the Company, and VCTs more generally, are successfully delivering against the Government's mandate, which is to channel money into higher-risk, early-stage businesses.

Another issue facing VCTs and similar schemes such as the Enterprise Investment Scheme is the 'Financial Health Test' that has been enforced more narrowly over the past twelve months. This test states that where a company is investing outside of its initial investing period, if more than half of an investee company's subscribed share capital has disappeared as a result of accumulated losses, then no further capital may be invested. In reality a number of early stage businesses need to be funded for longer than that initial period, making losses originally to fund growth. The Manager has performed a detailed review of the portfolio, and while the Company's portfolio is relatively unaffected at the current time, your Board will continue to monitor the situation carefully.

Whilst no further amendments to the VCT legislation were announced by the Chancellor in his 2023 Budget statement, it is possible that further changes will be made in the future. We will continue to work closely with the Manager to maintain compliance with the scheme rules at all times.

## Chair's Statement *continued*

### Board of directors

Your board recognises the need to consider succession planning and with due regard to developing its diversity. We are determined to only ever appoint when we have found high quality, value adding and experienced people who will contribute to the Board in the interests of shareholders. As previously announced, Ranjan Ramparia joined as a director in the year.

As part of the process of refreshing itself, which your board has been undertaking over the last few years, senior non-executive director, Frank Neale is not seeking re-election and retires at the AGM. As he stands down I want to thank him for his extraordinary contribution to the success of the Company over many years. It would be difficult to overstate the knowledge and expertise Frank Neale had brought to the board's deliberations, for which we are very appreciative. His wisdom and guidance will be much missed.

As reported in previous years, the Board goes through a rigorous appraisal process both collectively and individually during which it considers the independence of each director in the light of their performance at, and between, board meetings and when engaging with the Manager. Shareholders can be assured that with the benefit of

their wide experience and expertise your directors act of behalf of shareholders in challenging the Manager in respect of the strategic direction of the Company, the investment portfolio, the valuation of unquoted assets, performance-related management fees, fund raising and any other matter likely to impact the development of the Company.

All of the Directors who served throughout the year, with the exception of Frank Neale who is retiring from the Board, will be seeking re-election at the 2023 AGM in accordance with the AIC Code of Corporate Governance.

### Annual General Meeting

The Company's Annual General Meeting (AGM) will take place on 28 July 2023. The AGM usually provides an excellent opportunity for shareholders, directors and the Manager to meet in person, exchange views and comment. We intend to hold the 2023 AGM in person at Reed Smith LLP, Broadgate Tower, 20 Primrose Street, London, EC2A 2RS. Following positive feedback received from the last three years, we also intend to offer remote access for shareholders through an online webinar facility for those who would prefer not to travel. Please note that shareholders attending remotely must register their votes ahead of time, as it will not be possible to

count votes from online participants at the AGM. Full details and formal notice of the AGM are set out in a separate document. The General Meeting regarding the proposed changes to the performance-related management fee will be held immediately after the AGM.

### Outlook

Despite a challenging macroeconomic outlook with high inflation and rising interest rates, we will continue to provide patient capital to support innovative early stage businesses in the UK. Your board is encouraged by the continued strong deployment rates, and will continue to invest throughout the economic cycle.

Your board has confidence in the overall diversity of the portfolio and believes that it will continue to generate long term shareholder value.

We thank our investors for their continuing support.

### David Gravells

Chair  
15 June 2023





**“ I am pleased to report that the Company has continued to invest into an array of promising early stage companies and has supported existing portfolio companies, with £16.0 million invested across 27 investee companies in the year.**

# Directors and Advisers



**David Gravells MSc JP**  
(Chair)

an experienced entrepreneur who has been involved in a wide range of private equity financed businesses. He is a portfolio consultant to a number of developing companies and has interests in the public sector. He was appointed to the Board in 2007 and became chair in 2008.



**Simon Devonshire OBE**

has extensive business experience in corporate leadership, financial governance, strategy, communications and sales and marketing. He is currently entrepreneur in residence at the Manufacturing Technology Centre, the National Physical Laboratory and the Institute of Cancer Research. He is a serial entrepreneur and angel investor whose venture portfolio has raised more than £0.5 billion in capital finance. Simon was previously an entrepreneur in residence at the Department for Business, Energy and Industrial Strategy. He was appointed to the Board in 2017.



**Cecilia McNulty CA**  
(Chair of Audit Committee)

is an experienced board director and audit chair. She is currently a non executive director of RIT Capital Partners plc, Polar Capital Financials Trust plc and Eurobank Cyprus, an EU regulated bank. She held senior investing roles at Centaurus Capital, a London based hedge fund, Barclays Capital and Royal Bank of Scotland. She is a chartered accountant and was appointed to the Board in 2014.



**Frank Neale MBA**  
(Senior Independent Director)

is a partner in IRRfc, a private equity advisory business. He is a past vice-chair of the British Private Equity and Venture Capital Association. He was appointed to the Board in 1999.



## Ranjan Ramparia

is an experienced business professional with a background in corporate finance and investment management. Her experience includes working with institutional investors as well as management teams advising on strategy, funding, business planning and corporate governance. She is a partner at advisory firm Prime Advantage Capital Partners. She was appointed to the Board in May 2022.



### Secretary and registered office

Mercia Company Secretarial  
Services Limited  
Forward House  
17 High Street  
Henley-in-Arden B95 5AA  
Telephone: 0330 223 1430  
E-mail: [vctshareholderenquiries@mercia.co.uk](mailto:vctshareholderenquiries@mercia.co.uk)  
Website: [mercia.co.uk/vcts/n2vct/](http://mercia.co.uk/vcts/n2vct/)

### Registered number

03695071

### Investment manager

Mercia Fund Management Limited  
Forward House  
17 High Street  
Henley-in-Arden B95 5AA

### Listed investment advisers

Brewin Dolphin Limited  
Time Central  
32 Gallowgate  
Newcastle upon Tyne NE1 4SR

### Independent auditor

Mazars LLP  
The Pinnacle  
160 Midsummer Boulevard  
Milton Keynes MK9 1FF

### Taxation advisers

Philip Hare & Associates LLP  
6 Snow Hill  
London EC1A 2AY

### Solicitors

Reed Smith LLP  
Broadgate Tower  
20 Primrose Street  
London EC2A 2RS

### Stockbrokers

Panmure Gordon (UK) Limited  
One New Change  
London EC4M 9AF

### Bankers

Barclays Bank PLC  
25 Gresham Street  
London EC2V 7HN

Santander UK PLC  
2 Triton Square  
Regent's Place  
London NW1 3AN

### Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing BN99 6DA  
Shareholder helpline: 0800 028 2349



# Shareholder Information

## The Company

Northern 2 VCT PLC is a Venture Capital Trust (VCT) which has been listed on the London Stock Exchange since January 1999. The Company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of equity investments, quoted investment funds and bank deposits.

Northern 2 VCT PLC is managed by Mercia Fund Management Limited (Mercia), a wholly owned subsidiary of Mercia Asset Management PLC. Mercia is a specialist alternative asset manager with over 15 years' experience of providing capital to high-growth UK SMEs, meeting a large, growing and under-served need for long-term investment capital. Mercia offers high-growth UK SMEs a complete capital solution including private equity, debt, seed and venture capital (the latter category accounting for the majority of its investment activity). In being managed by Mercia, the VCTs have the opportunity to invest alongside Mercia's own funds that are able to make larger investments and also provide replacement capital.

Mercia also acts as manager or adviser of Northern Venture Trust PLC and Northern 3 VCT PLC, in addition to various other investment funds. The Company, Northern Venture Trust PLC and Northern 3 VCT PLC are generally known in the market as the Northern VCTs and are the only VCTs which Mercia manages or advises.

Mercia Asset Management PLC is quoted on AIM.

Northern 2 VCT PLC is a member of the Association of Investment Companies (AIC).

## Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation now being contained in the Income Tax Act 2007. 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. With effect from 6 April 2006, the benefits to eligible investors include:

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years;
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income); and
- exemption from capital gains tax on disposals of shares in VCTs.

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years. Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains deferral relief. Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in VCT tax reliefs.

In order to maintain approved status, a VCT must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007; in particular, a VCT is required at all times to hold at least 80% by value of its investments in qualifying holdings, of which at least 70% must comprise eligible shares. For this purpose a 'qualifying holding' is an investment in new shares or securities of an unquoted company (which may however be quoted on AIM) which has a permanent establishment in the UK, is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed prescribed limits.

The definition of 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing. The Finance (No 2) Act 2015 contained a number of significant changes to the VCT rules for investments completed after its introduction, designed to secure approval of the VCT scheme by the European Commission. A company whose trade is more than seven years old (ten years for 'knowledge intensive' companies) will generally only qualify for VCT investment if it has previously received State-aided risk finance before the end of the initial investing period or the new investment exceeds 10% of the total turnover for the past five years and the funds are used for new products and/or geographical markets; there is a lifetime limit of £12 million (£20 million for 'knowledge intensive' companies) on the amount of State-aid funding receivable by a company; and VCT funds may not be

used by a company to acquire shares in another company or to acquire a business. A breach of the requirements may lead to a loss of VCT status.

The Finance Act 2018 contained further changes to the conditions for a VCT to maintain its approved status. The changes were designed to increase the level of qualifying investments made by VCTs. A non-exhaustive list of the main points is as follows:

- investments made from 15 March 2018 are only qualifying if they meet the risk-to-capital condition. This principles based condition broadly requires the investee company to be an early stage, higher risk, entrepreneurial company which has the potential to grow in the long term;
- debt finance provided by VCTs must be made on an unsecured basis;
- a VCT must invest at least 30% of any funds raised in an accounting period commencing on or after 6 April 2018 in qualifying holdings within 12 months of the period end; and
- investments made from 6 April 2019 in qualifying holdings must comprise, in aggregate, at least 70% of eligible shares, regardless of when the money used to fund the investment was raised.



### Share price

The Company's share price is carried daily in the Financial Times and the Daily Telegraph. The Company's FTSE Actuaries classification is 'Investment Companies – VCTs'.

A range of shareholder information is provided on the internet at [www.shareview.co.uk](http://www.shareview.co.uk) by the Company's registrars, Equiniti Limited, including details of shareholdings, indicative share prices and information on recent dividends (see page 13 for contact details for Equiniti Limited).

Share price information can also be obtained via the Company's website.

### Dividend investment scheme

The Company operates a dividend investment scheme, giving shareholders the option of investing their dividends in new ordinary shares in the Company with the benefit of the tax reliefs currently available to VCT subscribers. Information about the dividend investment scheme can be obtained from the Company Secretary (see page 13 for contact details).

### Electronic communications

The Company continues to provide the option to shareholders to receive communications from the Company electronically rather than by paper copy. A letter is attached alongside this report for all shareholders currently receiving their annual report in print, requesting confirmation of their preferences. Shareholders who wish to change their preferences should visit [www.shareview.co.uk](http://www.shareview.co.uk) (operated by the Company's registrars, Equiniti Limited), register for a Shareview portfolio and select their preferred method of delivery of company communications.

# Financial calendar

Subject to regular review by the Directors, the Company's financial calendar for the year ending 31 March 2024 is as follows:

## December 2023

Half-yearly financial report for the six months ending 30 September 2023 published

## January 2024

Interim dividend paid

## June 2024

Final dividend and results for year ending 31 March 2024 announced

## June 2024

Annual report and financial statements published

## August 2024

Annual General Meeting

## August 2024

Final dividend paid

# Strategic Report

This report has been prepared by the Directors in accordance with the requirements of Section 414 of the Companies Act 2006. The Company's independent auditor is required by law to report on whether the information given in the Strategic Report and Directors' Report is consistent with the financial statements. The auditor's report is set out on pages 52 to 56.

## Corporate objective

The Company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing primarily in unquoted UK manufacturing, service and technology businesses which meet the Manager's key criteria of good growth potential, strong management and ability to generate cash in the medium to long term.

## Investment policy

The Company's investment policy has been designed to enable the Company to achieve its objective whilst complying with the qualifying conditions set out in the VCT rules, as amended by HM Government from time to time.

The Directors intend that the long-term disposition of the Company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM-quoted investments and 20% in other investments selected with a view to producing an enhanced return while avoiding

undue capital volatility, to provide a reserve of liquidity which will maximise the Company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs.

Within the VCT-qualifying portfolio, investments will be structured using various investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth. The selection of new investments will necessarily have regard to the VCT rules, which are designed to focus investment on earlier stage development capital opportunities. The portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period is expected to be in the range from three to ten years.

No single investment will normally represent an excess of 3% of the Company's total assets at the time of initial investment. As investments are held with a view to long-term capital growth as well as income, it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available.

Investments will normally be made using the Company's equity shareholders' funds and it is not intended that the Company will take on any long-term borrowings.

## Investment management

Mercia Fund Management Limited (Mercia) acts as investment manager and has done so since the Company consented to the novation of its existing investment management agreement from NVM Private Equity LLP (NVM), effective on 23 December 2019.

The Board's Management Engagement Committee reviews the terms of Mercia's appointment as investment manager on a regular basis. Further information about the terms of the management agreement with Mercia and the remuneration payable to Mercia is set out in the Directors' Report on pages 40 to 43 and in Note 3 to the financial statements.

## Co-investment arrangements

The Company operates within a co-investment and allocation policy that applies to all funds managed by Mercia. Under the terms of this policy, where an investment opportunity is VCT qualifying and the funding requirement is in excess of £2 million, the Company and the other VCTs managed by Mercia are the preferred and lead investors. For these opportunities the Company is entitled to participate pro rata to net assets alongside the other VCT funds managed by Mercia; save where the

investment opportunity is located in Yorkshire, Humberside, Teesside or the North East, where minimum syndication requirements mean that certain other funds managed by Mercia can participate in the funding round alongside the Northern VCTs; with an allocation of up to (but not exceeding) 20% (10% in the North East). Where the funding round for a new opportunity is under £2 million the VCTs will not be the lead investors; but if any such deal is in excess of £1.5 million, the Northern VCT funds have the right to participate at a de minimis level of £0.5 million.

In relation to follow-on rounds of investment where the Company and other Northern VCTs are existing investors, the Company, alongside the other Northern VCT funds, shall have priority to determine how much they wish to invest, with no requirement to offer such investment opportunity to the other funds managed or advised by Mercia (although they are free to do so if so determined by the Manager).

Under a co-investment scheme, members of the VCT investment team and certain key Mercia executives are required to invest personally alongside the funds in each VCT-qualifying investment on a predetermined basis.

**Table 1: Venture capital portfolio cash flow**

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/ (outflow) £000
2019	10,299	11,541	1,242
2020	10,125	6,180	(3,945)
2021	6,744	16,796	10,052
2022	14,681	26,153	11,472
2023	15,963	12,071	(3,892)
<b>Total</b>	<b>57,812</b>	<b>72,741</b>	<b>14,929</b>

**Table 2: Movements in net assets and net asset value per share**

	£000	Pence per ordinary share
<b>Net asset value at 31 March 2022</b>	<b>104,854</b>	<b>64.4</b>
Net revenue (investment income less revenue expenses and tax)	(320)	(0.2)
Capital surplus arising on investments:		
Realised net gains on disposals	(219)	(0.1)
Movements in fair value of investments	(1,302)	(0.7)
Expenses allocated to capital account (net of tax)	(1,623)	(0.9)
<b>Total return for the year as shown in income statement</b>	<b>(3,464)</b>	<b>(1.9)</b>
Proceeds of issues of new shares (net of expenses)	17,584	0.1
Shares re-purchased for cancellation	(2,664)	-
<b>Net movement for the year before dividends</b>	<b>11,456</b>	<b>(1.8)</b>
<b>Net asset value at 31 March 2023 before dividends recognised</b>	<b>116,310</b>	<b>62.6</b>
Dividends recognised in the financial statements for the year	(6,734)	(3.6)
<b>Net asset value at 31 March 2023 after dividends recognised</b>	<b>109,576</b>	<b>59.0</b>

**Overview of the year**

During the year under review Northern 2 VCT achieved a total return, before dividends, of minus 1.8 pence per share, equivalent to minus 2.8% of the opening net asset value per share of 64.4 pence. The movement in NAV is largely due to a fall in the fair value of investments of £1.3 million. The movement in total net assets and net asset value per share is summarised in Table 2.

Total income from investments during the year decreased slightly to £0.6 million (2022: £1.3 million). As the proportion of earlier stage investments in the unquoted portfolio increases as intended, returns on investment are likely to come from capital appreciation rather than income generation. The basic investment management fee payable to the Manager was £2.0 million (2022: £2.2 million); the decrease is due to a decrease in the average NAV across the year versus the prior year. There was no performance-related management fee payable in respect of the current year (2022: nil).

The net cash outflow from the venture capital portfolio during the year was £3.9 million, comprising investments of £16.0 million less disposal proceeds of £12.1 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, including the £17 million gross fundraise proceeds, £1.6 million of proceeds from the dividend reinvestment scheme, and dividend payments of £6.7 million, the Company's total cash balances increased over the year by £2.2 million to £29.3 million. In addition the Company holds quoted equity investments and interest-bearing investments valued at £8.6 million, compared with £9.2 million as at 31 March 2022.

**Dividends**

The Directors have declared or proposed dividends totalling 3.3 pence per share in respect of the year.

**Venture capital investment portfolio**

The last twelve months have been impacted by the lingering impact of COVID-19 measures, supply side shortages, inflationary pressures, rising interest rates and a global economic slowdown. During this period our investment manager has worked with portfolio management teams to navigate the fast-evolving landscape. In all cases, Mercia has been working very closely with investee management teams to support them to overcome liquidity, operational and other business challenges.

**Venture capital investment activity**

During the year ended 31 March 2023, nine new venture capital investments were completed at a cost of £10.0 million, and additional funding totalling £6.0 million was invested in nineteen existing portfolio companies, by way of follow-on-funding rounds. The proportion of annual investment in follow ons is increasing in line with the evolution of the portfolio to earlier stage companies, which often require multiple rounds of growth finance to realise their potential.

A summary of the venture capital holdings at 31 March 2023 is given on pages 23 to 25, with information on the fifteen largest investments on pages 26 to 33.

# Strategic report *continued*

## New investments

The new investments completed during the year were:

### Turbine Simulated Cell Technologies (£1,503,000)

Simulation of cell reaction to the treatment of complex disease

### Social Value Portal (£1,680,000)

Platform to enable corporate and public sector organisations to measure, report and enhance the social value they create

### Centuro Global (£1,109,000)

Technology platform to enable companies' international expansion plans

### Optellum (£1,206,000)

AI platform to diagnose and treat early-stage lung cancer

### Send Technology Solutions (£1,023,000)

Platform for insurers, reinsurers and managing general agents

### Wonderush (t/a HowNow) (£1,009,000)

Platform for workplace learning

### Axis Spine Technologies (£1,002,000)

Developer of next generation spinal implants

### LMC Software (£820,000)

Provider of social care management software for care homes for the elderly or disabled

### Sen Corporation (£643,000)

Live streaming of high quality video from space

## Investment realisations

Details of investment disposals during the year are given in Note 9 on page 69. The most significant disposals (original cost or sales proceeds in excess of £1.0 million) are summarised in Table 3.

**Lineup Systems** is a multi channel advertising and media company. The Company exited its investment in March 2023 for proceeds of £7.3 million, representing a return of 7.8x including interest received during the life of the investment.

**Knowledgemotion (t/a Boclips)** is an online educational video and podcast platform. In June 2022 the Company realised its investment for an initial £3.1 million, representing a return of 1.7x.

**Axial Systems** is a provider of security and data solutions. The Company originally invested in 2008 and exited this year representing a return of 0.7x including interest received during the life of the investment.

**Channel Mum** was a parenting focused video website which entered liquidation during the period.

**Intechnica** is cyber security consultancy, which demerged into two entities in May 2022 – Intechnica, and Netacea, a provider of cyber security through AI-powered consultancy. In January 2023, Intechnica was acquired by Crosslake Technologies. The initial proceeds received by the Company of £0.6 million represented an initial return of 2.3x.

**Ideagen** is a provider of quality, audit and risk management software solutions. The AIM-listed business experienced considerable growth over the investment lifetime and in July 2022 was acquired by private equity firm HG Pooled Management. The Company realised their investment for proceeds of £0.4 million, which represented a 10.2x return on cost.

**Table 3: Significant investment realisations**

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Lineup Systems	2011	975	7,288	6,313
Knowledgemotion	2017	1,778	3,069	1,291
Axial Systems Holdings	2008	1,004	41	(963)
Channel Mum	2016	1,369	-	(1,369)

### Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 62, which follows the International Private Equity and Venture Capital Valuation (IPEV) guidelines, being the industry accepted best practice.

Where valuations are based on company earnings, audited historic results will be taken into account along with more recent unaudited information and projections where these are considered sufficiently reliable. For investments in earlier stage businesses, where a material

arm's length transaction has recently been concluded, this is usually taken as the starting point for fair value, and subsequently tested and recalibrated to reflect changes in market conditions or company specific performance. Performance is typically considered using a range of metrics such as annual recurring revenue, customer wins, cash runway and budget accuracy. Provision against cost is made where an investment is under-performing significantly.

As at 31 March 2023 the number of venture capital investments falling into each valuation category was as shown in Table 4.

**Table 4: Investment valuation by category**

	Number of investments	Valuation £000	% of portfolio by value
<b>Unquoted investments at directors' valuation</b>			
Revenue/earnings multiple	17	21,157	29.5%
Price of a recent investment subsequently calibrated as appropriate	34	49,095	68.4%
<b>Quoted investments at bid price</b>			
Quoted on AIM	4	1,482	2.1%
<b>Total</b>	<b>55</b>	<b>71,734</b>	<b>100%</b>





## Strategic report *continued*

### Key performance indicators

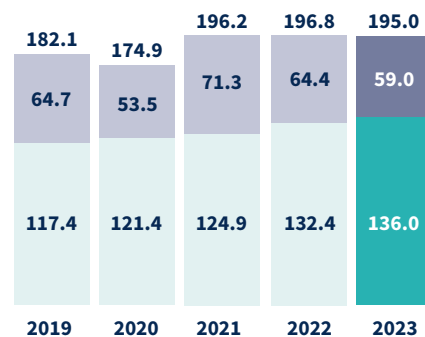
The Directors regard the following as the key indicators pertaining to the Company's performance:

**Net asset value and total return to shareholders:** the chart opposite shows the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

**Dividend distributions:** the chart opposite shows the dividends (including proposed final dividend) declared in respect of each of the past five financial years and on a cumulative basis since inception.

**Ongoing charges:** the charts opposite show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

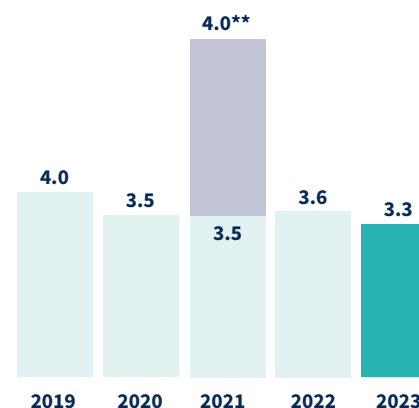
### Net asset value plus cumulative dividends paid per share (p)\*



NAV per share  
Cumulative dividends paid per share

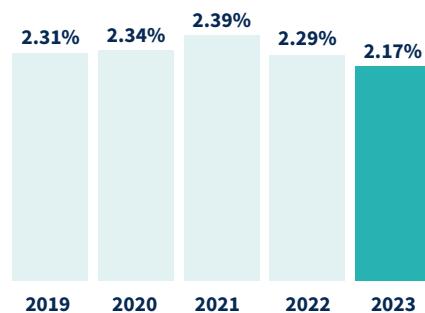
\*excludes dividends proposed but not yet paid

### Dividends per share (p)\*

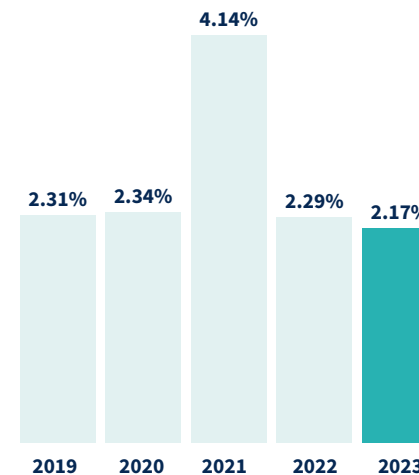


\*includes dividends proposed but not yet paid  
\*\*special dividend

### Ongoing charges excluding performance fees (% of average net assets)



### Ongoing charges including performance fees (% of average net assets)





### **Maintenance of VCT-qualifying status**

The Directors believe that the Company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.

### **Risk management**

The Board carries out a regular and robust assessment of the risk environment in which the Company operates and seeks to identify new risks as they emerge. The principal and emerging risks and uncertainties identified by the Board which might affect the Company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

#### **Investment and liquidity risk:**

investment in smaller and unquoted companies, such as those in which the Company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on key individuals. The securities of smaller companies in which the Company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The Company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide.

**Mitigation:** the Directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring, active management of portfolio issues, and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector, within the rules of the VCT scheme. The Board reviews the investment portfolio with the Manager on a regular basis.

**Financial risk:** most of the Company's investments involve a medium to long-term commitment and many are illiquid.

**Mitigation:** the Directors consider that it is inappropriate to finance the Company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the Company's assets in cash or cash equivalents in order to be in a position to pursue new unquoted investment opportunities and to make follow-on investments in existing portfolio companies. The Company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

**Economic risk:** events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate

financial resources, as well as affecting the Company's own share price and discount to net asset value. The level of economic risk has been elevated recently by inflationary pressures, interest rate increases, and supply shortages.

**Mitigation:** the Company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where it is appropriate and in the interests of the Company to do so. The Manager typically provides an investment executive to actively support the Board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

**Stock market risk:** some of the Company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as the terrorist activity, political activity or global health crises can negatively impact stock markets worldwide. In times of adverse sentiment there may be very little, if any, market demand for shares in smaller companies quoted on AIM.

**Mitigation:** the Company's quoted investments are actively managed by specialist managers, including Mercia in the case of the AIM-quoted investments, and the Board keeps the portfolio and the actions taken under ongoing review.

**Credit risk:** the Company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment.

**Mitigation:** the Directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

**Legislative and regulatory risk:** in order to maintain its approval as a VCT, the Company is required to comply with current VCT legislation in the UK. Changes to UK legislation in the future could have an adverse effect on the Company's ability to achieve satisfactory investment returns whilst retaining its VCT approval.

**Mitigation:** the Board and the Manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies

**Internal control risk:** the the Company's assets could be at risk in the absence of an appropriate internal control regime which is able to operate effectively even during times of disruption.

**Mitigation:** the Board regularly reviews the system of internal controls, both financial and non-financial, operated by the Company and the Manager. These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained.

**VCT qualifying status risk:** while it is the intention of the Directors that the Company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the Company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the Company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment.

**Mitigation:** the Manager keeps the Company's VCT qualifying status under continual review and its reports are reviewed by the Board on a quarterly basis. The Board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

# Strategic report *continued*

## Additional disclosures required by the Companies Act

### Section 172 Statement

Section 172 of the Companies Act 2006 requires a director to promote the success of the Company. In doing this they must act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing this our Directors are required to have a regard, amongst other matters, to the:

- likely consequences of any decisions in the long term
- need to foster the Company's business relationships with suppliers and others
- desirability of the Company maintaining a reputation for high standards of business conduct
- need to act fairly as between members of the Company

In discharging their duties each director has regard to the factors set out above and to other factors which they consider relevant to the decision being made. Those factors may include, for example, the interests and views of our shareholders, suppliers and regulators. The Board's aim is to make sure that decisions are consistent and predictable. Details on how the Board operates and the way Directors reach decisions, including some of the matters discussed and debated during the year, the key

stakeholder considerations that were central to those discussions and the way in which Directors had regard to the need to foster the Company's long-term relationship with shareholders and other stakeholders, are included in the Corporate Governance section of this report on pages 46 to 50. An example of a key decision reached by the Board during the year is the level of dividends paid or proposed. In reaching their final decision on this matter, the Board considered the level of returns generated by the Company, the potential timing of investment realisations, the potential future capital requirements of portfolio companies and continuing compliance with the VCT scheme rules.

### Key stakeholders

#### Employees

The Company had no employees during the year and there are five directors.

#### Shareholders

The Directors recognise the value of maintaining regular communications with shareholders. Formal reports are published at the half-year and year-end stages, and an opportunity is given to shareholders at the Annual General Meeting to question the Board and the Manager on matters relating to the Company's operation and performance. The Manager holds an annual VCT investor seminar to

which shareholders are invited and the Directors attend.

The Directors' decisions are intended to achieve the Company's corporate objective. Maintaining the Company's status as a VCT is a critical element of this.

### Investment manager

The Company's most critical business relationship is with the Manager, Mercia. There is regular contact with Mercia and members of Mercia's executive committee attend all of the Company's board meetings. The content discussed at each meeting is over a wide range of topics from company operations to issues faced by portfolio companies.

### Portfolio Companies

The Company holds minority investments in its portfolio companies and it has appointed Mercia to manage the portfolio. Whilst day to day interaction with portfolio companies is delegated via the investment management agreement to Mercia, updates are received by the Board at least quarterly. The Directors take an active interest in the challenges faced by portfolio companies. More details can be found on page 39.

### Key decisions in year

Payment of dividend: despite reporting a total return loss in the year, the Board maintained the annual dividend in excess of its target as realisation proceeds more than exceeded the value of dividends paid. In doing so, the Board considered commitments previously made to Shareholders, and assessed its short term liquidity requirements.

New performance related management fee: A detailed review of the existing performance related management fee arrangements have been carried out by the Board and a number of changes agreed with the Manager. The new proposed arrangements favour long term sustainable growth over short term volatility and seek to align more closely the interests of the Manager and shareholders. Shareholders will be consulted on plans at general meeting directly following the AGM on 28 July 2023.

### Environmental, Social and Governance ('ESG') considerations

For full details on the Company's approach to ESG and mandatory reporting requirements, please see page 34.

### Future prospects

The slowdown of the domestic and global economy, increased interest rates and supply side pressures continue to present challenges for UK businesses, however your Directors have been encouraged by the resilience exhibited by the portfolio as a whole. The Directors regularly monitor the service received from the Manager, registrars and custodians who all continue to operate effectively.

We remain committed to supporting the development and prosperity of entrepreneurial early stage businesses in the UK and believe that your Company remains well placed to do so.

By order of the Board

### Mercia Company Secretarial Services Limited

Secretary  
15 June 2023

# Investment portfolio

<b>Fifteen largest venture capital investments (see pages 26 to 33)</b>		Cost £000	Valuation £000	Like for like valuation increase/ (decrease) over period**	% of net assets by value
1	Evotix (formerly SHE)	2,518	11,529	113.7%	10.5%
2	Volumatic Holdings	216	3,275	(1.9)%	3.0%
3	Grip-UK (t/a Climbing Hangar)	3,213	3,213	0.0%	2.9%
4	Gentronix	1,164	2,630	109.9%	2.4%
5	Rockar	1,766	2,630	34.7%	2.4%
6	Tutora (t/a Tutorful)	2,490	2,595	7.6%	2.4%
7	Newcells Biotech	2,257	2,293	(10.9)%	2.1%
8	Biological Preparations Group	2,166	2,069	(15.2)%	1.9%
9	Adludio	1,916	1,916	0.0%	1.7%
10	Clarilis	1,828	1,828	(4.4)%	1.7%
11	Administrate	2,148	1,720	7.0%	1.6%
12	Buoyant Upholstery	1,057	1,707	(36.7)%	1.6%
13	Netacea	1,683	1,683	0.0%	1.5%
14	Social Value Portal	1,680	1,680	0.0%	1.5%
15	Pure Pet Food	1,605	1,669	0.3%	1.5%
<b>Other venture capital investments</b>					
16	Project Glow Topco (t/a Currentbody.com)	1,544	1,544	0.0%	1.4%
17	Turbine Simulated Cell Technologies	1,503	1,503	0.0%	1.4%
18	Eenate	1,394	1,394	0.0%	1.3%
19	Ridge Pharma	1,387	1,390	0.2%	1.3%
20	Forensic Analytics	1,357	1,357	0.0%	1.2%
21	Broker Insights	1,318	1,318	0.0%	1.2%
22	Optellum	1,206	1,206	0.0%	1.1%
23	Duke & Dexter	1,132	1,140	0.7%	1.0%

## Investment portfolio

<b>Other venture capital investments</b>		Cost £'000	Valuation £'000	Like for like valuation increase/ (decrease) over period**	% of net assets by value
24	Centuro Global	1,109	1,109	0.0%	1.0%
25	VoxPopMe	1,114	1,102	(11.3)%	1.0%
26	musicMagpie*	222	1,037	(50.0)%	0.9%
27	Send Technology Solutions	1,023	1,023	0.0%	0.9%
28	Wonderush Ltd (t/a Hownow)	1,009	1,009	0.0%	0.9%
29	Axis Spine Technologies	1,002	1,002	0.0%	0.9%
30	Pimberly	918	918	0.0%	0.8%
31	Fresh Approach (UK) Holdings	951	886	3.5%	0.8%
32	LMC Software	877	877	0.0%	0.8%
33	Moonshot	812	812	0.0%	0.7%
34	Locate Bio	798	798	0.0%	0.7%
35	Naitive Technologies	731	731	0.0%	0.7%
36	Oddbox	1,002	689	(81.6)%	0.6%
37	Northrow	1,342	686	(46.0)%	0.6%
38	Atlas Cloud	648	648	1.0%	0.6%
39	Sen Corporation	643	643	0.0%	0.6%
40	Intuitive Holding	1,508	618	5.1%	0.6%
41	Medovate	1,611	486	(67.5)%	0.5%
42	Synthesized	482	482	0.0%	0.4%
43	Thanksbox (t/a Mo)	1,411	469	(42.5)%	0.4%
44	Rego Technologies (t/a Upp) (formerly Volo)	2,223	440	(19.0)%	0.4%
45	Seahawk Bidco	479	436	(15.9)%	0.54%
46	Nutshell	675	354	(32.5)%	0.3%
47	Adept Telecom*	235	332	22.2%	0.3%
48	Arnlea Holdings	1,287	223	9.4%	0.3%

<b>Other venture capital investments</b>		Cost £'000	Valuation £'000	Like for like valuation increase/ (decrease) over period**	% of net assets by value
49	Haystack Dryers	1,497	218	59.3%	0.2%
50	Sorted Holdings	2,716	190	7.4%	0.2%
51	Customs Connect Group	1,433	113	4.5%	0.2%
52	Angle*	134	75	(61.0)%	0.1%
53	Velocity Composites*	96	39	(15.0)%	0.1%
54	Quotevine	1,186	–	(100.0)%	0.0%
55	Ablatus Therapeutics	559	–	(100.0)%	0.0%
<b>Total venture capital investments</b>		<b>70,281</b>	<b>71,734</b>		<b>65.5%</b>
<b>Listed equity investments</b>		<b>8,019</b>	<b>8,580</b>		<b>7.8%</b>
<b>Total fixed asset investments</b>		<b>78,300</b>	<b>80,314</b>		<b>73.3%</b>
<b>Net current assets</b>			<b>29,262</b>		<b>26.7%</b>
<b>Net assets</b>			<b>109,576</b>		<b>100.0%</b>

\*Listed on AIM

\*\*This percentage change in 'like for like' valuations is a comparison of the 31 March 2023 valuations with the 31 March 2022 valuations (or where a new investment has been made in the year, the investment amount), having adjusted for any partial disposals, loan stock repayments or new and follow-on investments in the year.

# 15 largest

venture capital investments



1

## Evotix (formerly SHE Software Group)

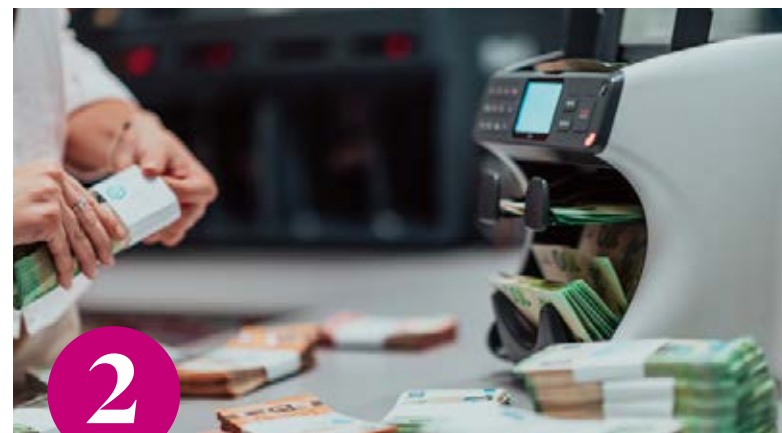
£2,518,000 | £11,529,000

Cost	Valuation
<b>Basis of valuation</b>	Revenue multiple
<b>Equity held</b>	10.9% (Mercia funds total 31.2%)
<b>Business/location</b>	Health & Safety platform provider, East Kilbride
<b>History</b>	Investment in February 2018, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended	2022	2021
31 March	£m	£m
<b>Sales</b>	8.5	6.7
<b>EBITDA</b>	(0.1)	(2.8)
<b>Loss before tax</b>	(1.0)	(3.0)
<b>Loss after tax</b>	(0.7)	(2.9)
<b>Net assets</b>	0.9	0.7

**EVOTIX**



2

## Volumatic Holdings

£216,000 | £3,275,000

Cost	Valuation
<b>Basis of valuation</b>	Earnings multiple
<b>Equity held</b>	24.8% (Mercia funds total 77.7%)
<b>Business/location</b>	Manufacturer of intelligent cash handling equipment, Coventry
<b>History</b>	Management buy-out, March 2012, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends £92,000, loan stock interest nil

### Audited financial information:

Year ended	2022	2021
31 March	£m	£m
<b>Sales</b>	15.5	10.6
<b>EBITDA</b>	3.3	2.5
<b>Profit before tax</b>	3.2	2.4
<b>Profit after tax</b>	2.9	2.2
<b>Net assets</b>	11.7	8.8

**volumatic**  
Intelligent Cash Handling





3

## Grip UK (t/a Climbing Hangar)

£3,213,000 | £3,213,000

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	20.1% (Mercia funds total 61.4%)
<b>Business/location</b>	Operator of indoor climbing and leisure facilities, London
<b>History</b>	Development capital financing, July 2018, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended 30 September	2021 £m	2020 £m
<b>Sales</b>	2.3	2.0
<b>EBITDA</b>	(1.5)	(1.0)
<b>Loss before tax</b>	(1.5)	(1.0)
<b>Loss after tax</b>	(1.5)	(0.9)
<b>Net assets</b>	6.7	4.2



4

## Gentronix

£1,164,000 | £2,630,000

Cost	Valuation
<b>Basis of valuation</b>	Revenue multiple
<b>Equity held</b>	29.9% (Mercia funds total 86.6%)
<b>Business/location</b>	Technology for carcinogenic drug identification, Manchester
<b>History</b>	Development capital financing, February 2007, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest £8,000

### Audited financial information:

Year ended 31 August	2022 £m	2021 £m
<b>Sales</b>	3.7	2.5
<b>EBITDA</b>	(0.6)	(0.3)
<b>Loss before tax</b>	(0.7)	(0.1)
<b>Loss after tax</b>	(0.7)	(0.1)
<b>Net assets</b>	1.5	1.5



## 15 largest venture capital investments *continued*



5

### Rockar

**£1,766,000 | £2,630,000**

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	7.6% (Mercia funds total 23.0%)
<b>Business/location</b>	E-Commerce & fulfilment platform for the new car sales industry, Hull
<b>History</b>	Management buy-out financing, July 2016, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest £44,000

#### Audited financial information:

Year ended 31 December	2022 £m	2021 £m
Sales	7.5	6.2
EBITDA	1.1	1.3
Profit/(loss) before tax	0.8	0.8
Profit/(loss) after tax	1.2	1.0
Net assets	4.2	3.0

**Rockar**



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### Tutora (t/a Tutorful)

**£2,490,000 | £2,595,000**

Cost	Valuation
<b>Basis of valuation</b>	Revenue multiple
<b>Equity held</b>	12.7% (Mercia funds total 37.9%)
<b>Business/location</b>	Online platform for private tutors, Sheffield
<b>History</b>	Development capital financing, October 2019, led by Mercia Fund Management
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

#### Audited financial information:

Year ended 31 December	2021 £m	2020 £m
Sales	3.1	2.5
EBITDA	(3.6)	(1.0)
Loss before tax	(2.7)	(1.0)
Loss after tax	(2.6)	(0.9)
Net assets	(0.5)	2.1

**tutorful**



7

## Newcells Biotech

£2,257,000 | £2,293,000

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	13.3% (Mercia funds total 41.4%)
<b>Business/location</b>	Supplies assay products to the drug and chemical development markets, Newcastle
<b>History</b>	Development capital financing, June 2018, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended	2022	2021
31 January	£m	£m
<b>Sales</b>	1.3	1.3
<b>EBITDA</b>	(2.0)	(1.2)
<b>Loss before tax</b>	(2.4)	(1.3)
<b>Loss after tax</b>	(2.1)	(1.1)
<b>Net assets</b>	2.8	4.9



8

## Biological Preparations Group

£2,166,000 | £2,069,000

Cost	Valuation
<b>Basis of valuation</b>	Earnings multiple
<b>Equity held</b>	23.4% (Mercia funds total 71.2%)
<b>Business/location</b>	Developer and supplier of products based on microbial, antimicrobial, plant extract and enzyme technology, Cardiff
<b>History</b>	Management buy-out financing, March 2015, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended	2021	2020
31 December	£m	£m
<b>Sales</b>	7.0	9.6
<b>EBITDA</b>	(0.4)	1.0
<b>(Loss)/profit before tax</b>	(0.5)	(0.4)
<b>(Loss)/profit after tax</b>	(0.4)	(0.5)
<b>Net assets</b>	2.2	(3.3)





## 15 largest venture capital investments *continued*



9

### Adludio

£1,916,000 | £1,916,000

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	12.9% (Mercia funds total 40.5%)
<b>Business/location</b>	Marketing services provider helping brands run online campaigns, London
<b>History</b>	Development capital financing, August 2021, led by Mercia Fund Management
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

#### Unaudited financial information:

Year ended 31 December	2022 £m	2021 £m
Sales	7.4	6.9
EBITDA	(1.3)	(1.6)
Loss before tax	(1.4)	(1.7)
Loss after tax	(1.5)	(2.0)
Net assets	2.7	4.0



10

### Clarilis

£1,828,000 | £1,828,000

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	9.1% (Mercia funds total 28.0%)
<b>Business/location</b>	Provides automated legal document preparation software, Leamington Spa
<b>History</b>	Development capital financing, June 2018, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

#### Unaudited financial information:

Year ended 31 December	2021 £m	2020 £m
Sales	1.8	1.6
EBITDA	(1.9)	(1.3)
Loss before tax	(1.9)	(1.3)
Loss after tax	(1.7)	(1.1)
Net assets	3.4	5.1





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## Administrate

£2,148,000 | £1,720,000

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	9.3% (Mercia funds total 29.0%)
<b>Business/location</b>	SaaS training management and LMS platform, Edinburgh
<b>History</b>	Development capital financing, December 2018, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended 31 December	2022 £m	2021 £m
Sales	4.3	3.6
EBITDA	(5.0)	(3.4)
Loss before tax	(5.0)	(3.4)
Loss after tax	(4.8)	(3.0)
Net (liabilities)/assets	(1.3)	0.2

 **Administrate**



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## Buoyant Upholstery

£1,057,000 | £1,707,000

Cost	Valuation
<b>Basis of valuation</b>	Earnings multiple
<b>Equity held</b>	11.5% (Mercia funds total 35.9%)
<b>Business/location</b>	Design and manufacture of upholstered furniture, Nelson
<b>History</b>	Development capital financing, July 2013, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended 31 December	2021 £m	2020 £m
Sales	50.6	36.3
EBITDA	2.7	1.5
Profit/(loss) before tax	1.5	(0.2)
Profit/(loss) after tax	1.1	(0.4)
Net assets	5.7	4.7

 **Buoyant**  
UPHOLSTERY

## 15 largest venture capital investments *continued*



13

### Netacea

£1,683,000 | £1,683,000

Cost	Valuation
<b>Basis of valuation</b>	Revenue multiple
<b>Equity held</b>	3.4% (Mercia funds total 34.6%)
<b>Business/location</b>	Protects websites, mobile apps and APIs using an intelligent detection engine. Manchester
<b>History</b>	Development capital financing into Intechnica, December 2021, subsequent de-merger into Netacea, May 2022, led by Mercia Fund Management
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT, Mercia Investment Plan LP, Northern Powerhouse Investment Fund, North West Fund for Venture Capital
<b>Income in year</b>	Dividends nil, loan stock interest nil

#### Audited financial information:

Year ended 31 March	2022 £m	2021 £m
<b>Sales</b>	N/A	N/A
<b>EBITDA</b>	N/A	N/A
<b>Loss before tax</b>	N/A	N/A
<b>Loss after tax</b>	N/A	N/A
<b>Net assets</b>	N/A	N/A

NETACEA



14

### Social Value Portal

£1,680,000 | £1,680,000

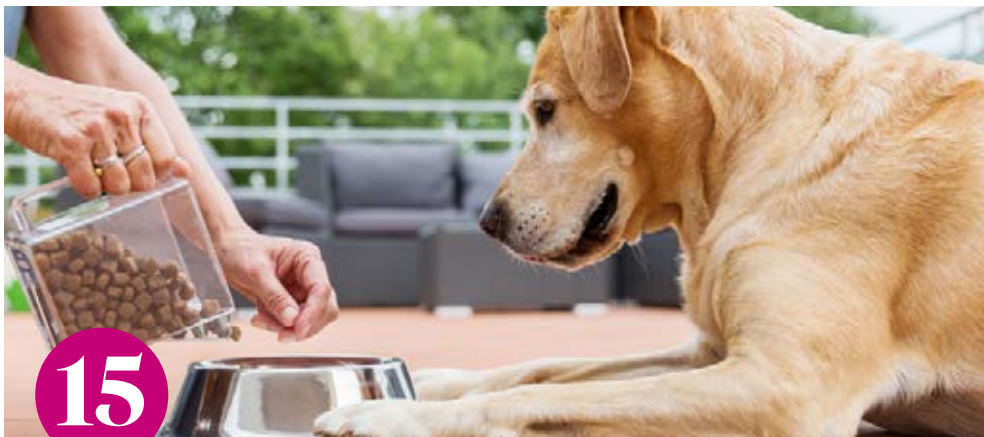
Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	4.6% (Mercia funds total 15.0%)
<b>Business/location</b>	Platform to enable corporate and public sector organisations to measure, report and enhance the social value they create, London
<b>History</b>	Development capital financing, February 2023, led by Mercia Fund Management
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT, Mercia Knowledge Intensive EIS
<b>Income in year</b>	Dividends nil, loan stock interest nil

#### Unaudited financial information:

Year ended 31 December	2022 £m	2021 £m
<b>Sales</b>	5.5	3.1
<b>EBITDA</b>	(3.0)	(2.5)
<b>Loss before tax</b>	(3.3)	(2.3)
<b>Loss after tax</b>	(3.3)	(2.3)
<b>Net liabilities</b>	(3.8)	(0.4)

 Social Value Portal





## Pure Pet Food

**£1,605,000** | **£1,669,000**

Cost	Valuation
<b>Basis of valuation</b>	Price of a recent investment
<b>Equity held</b>	24.0% (Mercia funds total 74.4%)
<b>Business/location</b>	Production of organic pet food, Halifax
<b>History</b>	Development capital financing, March 2019, led by NVM Private Equity
<b>Other Mercia funds investing</b>	Northern Venture Trust, Northern 3 VCT
<b>Income in year</b>	Dividends nil, loan stock interest nil

### Audited financial information:

Year ended 31 March	2022 £m	2021 £m
<b>Sales</b>	<b>3.4</b>	1.8
<b>EBITDA</b>	<b>(1.7)</b>	(0.9)
<b>Loss before tax</b>	<b>(1.7)</b>	(0.9)
<b>Loss after tax</b>	<b>(1.7)</b>	(0.9)
<b>Net assets/(liabilities)</b>	<b>1.1</b>	(0.2)



# Responsible investment

## Environment, social and governance

The Company is committed to conducting its affairs responsibly and, alongside the Manager, considers environmental, social and governance (ESG) issues as part of its operations.

In addition to its commitment to financial performance, the Board is mindful of the impact of the Company and its investments on the environment alongside its social and corporate governance responsibilities. We recognise that the ESG regulatory and reporting landscape is subject to rapid change, and therefore the Company works closely with the Manager to ensure compliance and develop initiatives.

The Company is required, under the Companies Act 2006, to provide details of environmental performance, social, human rights, employee, community issues; including information about any policies it has in relation to these matters and the effectiveness of these policies. As the Company does not have any employees, nor its own premises, the Company does not maintain specific policies in relation to these matters, however the Manager maintains its own policies as appropriate.

### Responsible Investment ESG KPIs

77%

**KPI:**

Percentage of shareholders signed up for electronic communications

**Impact:**

Reducing the company's carbon emissions from its own operations

**Theme:**

Environmental

Impact Assessed

**KPI:**

The carbon emissions of the Manager were measured in the year to 31 March 2023 and a long-term reduction plan is being enacted

**Impact:**

Reducing the carbon impact of our operations performed through the Manager

**Theme:**

Environmental

40%

**KPI:**

Proportion of the Board identifying as female

**Impact:**

Promoting diversity in leadership

**Theme:**

Social

71%

**KPI:**

Investments made outside of London

**Impact:**

Improving access to capital across the UK, benefiting local communities

**Theme:**

Social

52%

**KPI:**

Percentage of post-2015 portfolio companies that completed the ESG\_VC questionnaire

**Impact:**

Increasing engagement with ESG issues within the company' portfolio

**Theme:**

Governance

36

**KPI:**

Number of portfolio companies where the Manager has a member of staff as a statutory director

**Impact:**

Encouraging best practice directly at board level of each portfolio company

**Theme:**

Governance

70%

**KPI:**

Percentage of portfolio companies that have formally raised ESG on the Board agenda in the year

**Impact:**

Encouraging portfolio engagement with ESG principles

**Theme:**

Governance

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**KPI:**

Number of portfolio companies where we have assisted in identifying board/c-suite members in the year

**Impact:**

Improving governance in portfolio companies

**Theme:**

Governance

## Highlights and initiatives

Below is a summary of some of the progress made this year:

### Portfolio Engagement

After a successful pilot scheme in 2021, this was the second year that the Manager worked with portfolio companies to complete ESG surveys using the venture capital specific framework developed by ESG\_VC. The questionnaire is designed to assist unquoted portfolio companies respond to ESG risks and opportunities and how these are considered as part of their operations. The survey asks portfolio companies a range of questions across key environmental, social and governance factors. It also asks them to indicate the relevance of those to their business, as well as their ability to influence those factors.

The Manager believes that this engagement with the portfolio is important due to the following reasons:

- It encourages early-stage portfolio companies to begin to engage with ESG, or if later-stage, map their current position and flag potential focus areas.
- It produces a data set for tracking our performance in influencing ESG factors within the portfolio, and changes on a portfolio basis over time.
- It enables comparison between portfolio companies, and when aggregated with the anonymised data of other venture capital portfolio companies, allows the Manager to determine how best to target its support.

Over time the Manager will use the insights gained from these questionnaires to inform how we target support for portfolio companies, and the types of investments it makes.

### Shareholder communications

As part of the Board's ongoing commitment to reducing the Company's carbon emissions, and in line with the process performed in late 2021, letters requesting that shareholders confirm their mailing preferences are included alongside all distributed printed copies of this annual report. By reducing the number of hard copy documents the Board aims to reduce the Company's emissions from printing and postage. As of the signing date of this report, 77% of shareholders are signed up for electronic communications. If a shareholder has elected to receive paper communications, the Company is no longer printing the interim report but will advise them when this report is available on the Manager's website.

### Further investments into sustainability-focused companies

The Company continued to invest in a number of sustainability-focused and purpose-led companies in the year and follow on investments were also made into existing portfolio companies. More detail on the investment into Social Value Portal is provided on page 38.



## The Manager's approach to responsible investment

The Manager is committed to responsible investment, which is an investment approach that considers environmental, social, and governance (ESG) factors in the investment decision-making process. The Manager provides growth capital and tailored investment solutions to thriving regional businesses to create long-term shareholder value. It has formed a responsible investment committee, which meets monthly and comprises a number of employees from across the business, including a number from the VCT investment team.

The Manager's responsible investment committee ensures delivery against three guiding principles, inspired by the UN's Sustainable Development Goals ('SDGs'):

### Sustainable economic growth

- Provide support for entrepreneurship and SME growth
- Support and promote job creation and talent development
- Focus on technological innovation

### Reducing inequalities within our communities

- Reduce inequalities across the UK and within UK regions
- Empower and promote diversity and inclusion

### Health & wellbeing for all

- Promote health and well-being
- Support R&D of effective and essential treatments and other healthcare services

### Policies

The investment adviser has a number of ESG-focused policies, including:

- Origination and Investment Policy
- Portfolio Value Creation Policy
- Internal Values and Culture Policy

These policies guide the way in which we invest and engage with portfolio companies outlining best practice. The Manager is currently in the process of refreshing these policies with a view to publishing them in the next financial year.

### Investment Process

ESG matters are considered when reviewing investment opportunities. Every investment paper has a section where the investment team consider any relevant ESG matters, which are then discussed, where relevant, by the investment committee before each investment is approved.

### Embedding an 'ESG mindset'

All of the Manager's staff have ESG objectives that are agreed with their line manager as part of the annual performance appraisal process, and regular training sessions are organised to develop the investment team's awareness of key issues.

### Outlook

The Manager will continue to support the Company to develop initiatives and support the Board's ESG agenda.





## Environmental

The Company is committed to investing in companies that are aware of their impact on the environment. As part of the Manager's investment process, environmental risks associated with potential portfolio companies are evaluated. The Manager encourages portfolio companies to adopt environmentally friendly practices where possible by using the influence of its investment team on each of the portfolio company's boards.

### Carbon emission reporting and SECR

The Streamlined Energy and Carbon Reporting (SECR) is a UK regulation that requires some large companies to report on their energy use, greenhouse gas emissions, and energy efficiency measures in their annual reports. The Company does not own or lease its own premises and does not employ any staff directly and as the Company consumes under 40MWh of energy per year, it is deemed a 'low energy user' and is therefore out of scope for SECR reporting. The Company's registered office is at the Manager's head office, who have measured their carbon emissions and offset them in the most recent financial year.

### Manager's carbon emissions

The Manager's parent company, Mercia Asset Management PLC, is in the process of finalising its second annual review of corporate carbon emissions, in collaboration with Positive Planet. It offset its emissions for the year to March 2022, and will look to do so again in 2023. More information can be found in its annual report.

### Task Force on Climate-related Financial Disclosures

The Company is not in scope for TCFD and the Manager, due to its total assets under management being under £5 billion, is also out of scope. The Company will seek to voluntarily adopt any recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) which fall within its investment mandate as soon as reasonably practical.

### Portfolio carbon emissions reporting

Your Board is acutely aware of the importance of measuring and reporting the impact of the Company's complete carbon impact, including the impact of its investments in portfolio companies. Due to the early stage of its investee companies, many do not have the systems or resources in place to accurately record emissions. The Manager is therefore currently focused on engaging with management teams directly, raising engagement and awareness through initiatives such as the ESG\_VC questionnaire. Instead of providing emissions data based on a large number of assumptions, the Manager will continue to monitor developments in carbon reporting frameworks and engage with third parties with the aim of reporting on portfolio company activity once meaningful, auditable data can be provided for the majority of the portfolio.

## Environmental, social and governance *continued*

### Social

#### Diversity

Your Directors understand the importance of promoting diversity of the Company's board. The ongoing board succession plan seeks to create diverse group of experienced individuals. The Board has 40% representation from female Directors.

The Manager has also committed to encouraging diversity, with several initiatives in place such as:

- Signing up to the Investing in Women Code, a commitment to support the advancement of female entrepreneurship in the United Kingdom by improving female entrepreneurs' access to tools, resources and finance from the financial services sector.
- Committing to improving diversity in its hiring practices, this has resulted in two new female hires to its dedicated VCT investment team in the year to 31 March 2023.
- It adheres to an Equal Opportunities policy which values and respects all employees, irrespective of role, gender, race, age, sexual orientation or religious belief.

#### National focus

The Manager has offices across the UK, enabling local access to its investment team by management teams. This enables the Company to invest companies spread across the country, not just in London. In total, 71% of the Company's investment, measured by value, is outside of London.

#### Other initiatives

The Manager has a number of programmes designed to support social initiatives:

- It actively encourages employees to become involved in volunteering and charitable community projects through initiatives such as Mercia Spirit.
- It seeks to engage with outreach programmes to promote diversity & inclusion within communities.

It seeks input from all of its employees to ensure ongoing balanced representation through a formal committee structure.

# Case Study: Social Value Portal



Social Value Portal is a software business that enables organisations to measure their social value, using its proprietary framework and technology platform. Social value is defined as the positive value businesses create for the economy, communities and society as a whole. Quantification of social value is now mandatory for those bidding for public sector work, however the 'S' in ESG reporting has often been overlooked due to challenges in ascribing a pounds and pence value to this nuanced, multi-faceted and often complex area.

#### Amount invested

The Northern VCTs invested £5.0 million in February 2023 alongside a £1.5 million of co-investment from Mercia's EIS funds.

#### Use of funds

Funding from this round will enable the business to expand on its efforts in the UK private sector and capitalise on the in-bound demand it has seen from its customers to offer its framework internationally.



## Governance

As providers of Venture Capital with a dedicated investment team of 15 professionals that attend portfolio company board meetings, governance is the area that your Board and the Manager strongly believe the Company can make the biggest difference.

### Investment process

As part of our standard investment process we look for companies with independent and diverse boards, robust internal controls, and a commitment to ethical behaviour and transparency. Management due diligence is performed as part of the investment process, feeding into the decision process on whether to invest. In addition, each investment recommendation from the Manager includes a dedicated section discussing ESG specific risks and value creation opportunities, encouraging the Manager's investment team and management teams to engage.

### Portfolio talent and operating partners

The Manager has appointed a Head of Portfolio Talent to its dedicated VCT investment team, which will strengthen the team's credentials appointing and retaining the most appropriate people in portfolio companies. This forms part of a wider strategy to create value, and aligns the Board's view that strong corporate governance is essential for long-term success. By supporting portfolio companies and surrounding them with experienced individuals we seek to strengthen each portfolio company's internal governance framework and provide a strong culture to 'do the right thing'.

### Encouraging best practice and value creation

By attending board meetings and engaging with management teams, the Manager aims to encourage best practice. Examples of this over the past 12 months have been:

- working with management teams to ensure they had support during the recent banking sector issues, including strengthening their treasury policies
- enacting the Manager's KPI for the year to 31 March 2023 to ensure that ESG was raised at least once on a formal board agenda for all companies
- bringing portfolio CEOs together for events to network and learn from each other

As the Company's investment manager Mercia will continue to work with your Directors to develop initiatives and support the Company's ESG targets.

# Directors' Report

## **The Directors present their report and the audited financial statements for the year ended 31 March 2023.**

### **Activities and status**

The principal activity of the Company during the year was the making of long-term equity and loan investments, mainly in unquoted companies.

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 274 of the Income Tax Act 2007. 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 Chapter 2 of Part 10 of the Corporation Tax Act 2010. The Company's registered number is 03695071.

The Directors are required by the articles of association to propose an ordinary resolution at the Company's Annual General Meeting in 2027 that the Company should continue as a venture capital trust for a further five year period, and at each fifth subsequent Annual General Meeting thereafter. Shareholders will be asked to approve an amendment to the Company's articles of association to extend the date of the Annual General Meeting at which such ordinary resolution will be proposed to 2029. This will postpone the continuation resolution until a period of five years has elapsed from the allotment of shares pursuant

to the proposed prospectus top-up offer in the tax year 2023/24. 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.

A consideration of the environmental impact of the Company's activities is set out on page 37.

### **Corporate governance**

The statement on Corporate Governance set out on pages 46 to 50 is included in the Directors' Report by reference.

### **Results and dividend**

The return after tax for the year of minus £3,464,000 (2022: return of £923,000) has been transferred to reserves.

The final dividend of 1.6 pence per share in respect of the year ended 31 March 2022 and interim dividend of 2.0 pence per share in respect of the year ended 31 March 2023 were paid during the year at a cost of £6,734,000 and have been charged to reserves.

The Directors have proposed a final dividend of 1.3 pence per share for the year ended 31 March 2023. Subject to approval of the final dividend at the Annual General Meeting, the final dividend will be paid on 18 August 2023 to shareholders on the register on 21 July 2023.

### **Provision of information to the auditor**

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken all the steps that they could reasonably be expected to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### **Statement on long-term viability**

In accordance with the requirements of the AIC Code of Corporate Governance, the Directors have assessed the prospects of the Company over the three year period to March 2026. The Directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than three years and that the period is appropriate for a business of the Company's nature and size.

In making their assessment the Directors have carried out a robust review of the risk environment in which the Company operates, including those risks which might threaten its business model or future performance and the steps taken with a view to their mitigation (see page 21 for further details on risk management). The Directors have considered the ability of the Company to comply on an ongoing

basis with the conditions for maintaining VCT approved status. The Directors have also considered the nature of the Company's business, including its substantial reserve of cash and near-cash investments, the potential of its venture capital portfolio to generate future income and capital proceeds and the ability of the Directors to control the level of future cash outflows arising from share-buy backs, dividends and investments. When assessing the potential future cashflows of the Company, the Directors have considered various scenarios including a 'downside case' where potential cash inflows are severely impacted by economic disruption. As detailed on page 48, the Management Engagement Committee has also considered the Company's relationship with the investment manager, Mercia, by reference to the performance of the venture capital portfolio and the expertise demonstrated by Mercia in venture capital investment.

Taking into account the Company's current position and principal risks, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation over the three year period and meet its liabilities as they fall due over that period.

## Going concern

The financial statements have been prepared on a going concern basis.

The Directors performed an assessment of the Company's ability to meet its liabilities as they fall due. In performing this assessment, the Directors took into consideration the uncertain economic outlook including:

- the investments and liquid resources held by the Company;
- the fact that the Company has no debt or capital commitments;
- the ability of the Company to meet all of its liabilities and ongoing expenses from its assets, including its year-end cash balance;
- revenue and operating cost forecasts for the forthcoming year;
- the ability of third-party service providers to continue to provide services; and
- potential downside scenarios including a fall in the valuation of the investment portfolio or levels of investment income.

Based on this assessment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore determine the going concern basis to be appropriate.

An explanation of the significant post-balance sheet events are given in the investment realisations section of the Strategic Report and in note 20 of the financial statements.

## Directors

None of the Directors has a contract of service with the Company and, except as mentioned below under the heading 'Management', no contract or arrangement subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. A list of each director who has served during the year is given on page 45.

## Director Diversity

In accordance with Listing Rules 9.8.6R(10), 9.8.6I G, 14.3.33R(2) and 14.3.36G, the Company confirms that each of the Directors of the Company was asked to confirm the gender that they identify with and their ethnicity, as of 31 March 2023. The responses have been collated and reflect the following data:

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	3	60%	100%	N/A	N/A
Women	2	40%	0%	N/A	N/A
Non-binary				N/A	N/A
All other gender identities	–	–	–	N/A	N/A
Prefer not to say	–	–	–	N/A	N/A

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	4	80%	2	N/A	N/A
Mixed/multiple ethnic groups	–	–	–	N/A	N/A
Asian/Asian British	1	20%	–	N/A	N/A
Black/African/Caribbean/Black British	–	–	–	N/A	N/A
Other ethnic group, including Arab	–	–	–	N/A	N/A
Prefer not to say	–	–	–	N/A	N/A

In accordance with Listing Rules 9.8.6R(9) and 14.4.33R(1), the Company confirms that it is has met the following targets:

- At least 40% of the Board are women.
- At least one member of the Board is from a minority ethnic background, excluding those listed as coming from a white ethnic background.

In accordance with Listing Rules 9.8.6R(9) and 14.4.33R(1), the Company confirms that it is has not met the following targets:

- At least one of the senior Board positions (Chair, Chief Executive Officer, Senior Independent Director or Chief Financial Officer) is a woman.

The Board recognises the importance, value and strength of having a diverse membership. Although the key objective with any board appointment is to recruit the best person for the job, the Board has strengthened its diversity in the most recent Board appointment(s) and will continue to do so by ensuring the candidate search process utilises proven methods of appealing to a diverse mix of applicants. The Board is exclusively non-executive and as such only the positions of Chair and Senior Independent Director are relevant to the Board.

# Directors' report *continued*

## Directors' and officers' liability insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the Directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the Company.

## Management

Mercia took over management of the Company's investment affairs on 23 December 2019 after the novation of the pre-existing management agreement between the Company and NVM Private Equity LLP (NVM), who had acted as manager since the Company's inception. The principal terms of the Company's management agreement with Mercia are set out in Note 3 to the financial statements.

The Management Engagement Committee carries out a regular review of the terms of Mercia's appointment with a view to ensuring that Mercia's remuneration is set at an appropriate level, having regard to the nature of the work carried out and general market practice.

As required by the Listing Rules, the Directors confirm that in their opinion the continuing appointment of Mercia as investment manager on the terms agreed is in the interests of the Company's shareholders as a whole. In reaching this conclusion the Directors have taken into account

the performance of the investment portfolio and the efficient and effective service provided by Mercia to the Company.

## Remuneration receivable by the Manager

The remuneration receivable by the Manager by virtue of the management agreement with Northern 2 VCT comprises the following:

### Remuneration payable by Northern 2 VCT

**Basic management fee:** the Manager is entitled to receive a basic annual management fee equivalent to 2.06% of net assets, calculated half-yearly as at 31 March and 30 September. In consenting to the novation of the management agreement to Mercia in December 2019, it was agreed that the fee due on the value of liquid assets above the threshold of £20 million would continue to attract a reduced rate of 1% per annum on a permanent basis. In the year ended 31 March 2023 the basic annual management fee was £2,019,000 (preceding year: £2,162,000).

**Performance-related management fee:** the Manager is entitled to receive an annual performance-related management fee equivalent to 12% of the total return in excess of a formula-driven hurdle rate, details of whose composition are set out in Note 3 to the financial statements. The hurdle rate for the year ended 31 March 2023

was 6.0% (preceding year: 6.0%). There were no performance-related management fees due for the years ended 31 March 2023 and 31 March 2022. There are amendments proposed to the operation of the fee, which are described in the Chair's Statement and the accompanying circular.

**Accounting and secretarial fee:** the Manager is responsible for providing accounting, administrative and secretarial services to the Company for an annual fee of £67,000 (preceding year: £62,000), linked to the movement in the RPI.

The total remuneration payable in aggregate to the Manager by Northern 2 VCT in respect of the year, comprising the basic management fee, the performance-related management fee and the accounting and secretarial fee, was £2,086,000 (preceding year £2,224,000).

Under current tax legislation the fees paid by the Company to the Manager are not subject to VAT. The total annual running costs of the Company, including the basic management fee and the accounting and secretarial fee but excluding the performance-related management fee, are capped at 2.9% of average net assets and any excess will be refunded to the Company by way of a reduction in the Manager's basic management fee. The annual running costs of the Company for the year ended 31 March 2023 were

equivalent to 2.17% of average net assets (preceding year: 2.29%).

## Remuneration payable by investee companies

Under the management agreement, the Manager is entitled to receive fees from investee companies in respect of the arrangement of investments and the provision of non-executive directors and other advisory services. The Manager is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 March 2023 the arrangement fees receivable by the Manager from investee companies which were attributable to investments made by Northern 2 VCT amounted to £406,000 (preceding year: £351,000), and directors' and monitoring fees amounted to £329,000 (preceding year: £364,000).

## Executive co-investment scheme

Since 2006 the Company has, together with the other VCT funds managed by Mercia, participated in a co-investment scheme with the objective of enabling the investment manager to recruit, retain and incentivise its key investment personnel. Under the scheme executives are required to invest personally (and on the same terms as the Company and other VCT funds managed by Mercia) in the ordinary share capital of every unquoted

investee company in which the Company invests. Since the novation of the management agreement to Mercia, Mercia has managed a new co-investment scheme. The shares held by executives can only be sold at such time as the VCT funds advised by Mercia sell their shares and any prior ranking loan notes or preference shares held by the funds having been repaid. The executives participating in the scheme jointly subscribe for 5.0% of the non-yielding ordinary shares available to the Northern VCT funds, except in the case of investments where there is no class of yielding securities, in which case the executives jointly subscribe for 1.0% of the non-yielding ordinary shares available to the Northern VCT funds. At 31 March 2023 the Mercia co-investment scheme held investments in 42 investee companies acquired at a total cost of £567,000, of which £193,000 was attributable to investments made by the Company.

## Share capital – purchase of shares

During the year the Company purchased for cancellation 4,673,456 of its own shares, representing 2.87% of the called-up share capital of the Company at the beginning of the year, for a total consideration of £2,664,000. Purchases were made in line with the Company's policy of purchasing available shares at a discount to net asset value. At the 2022 Annual General Meeting, held

on 10 August 2022, shareholders authorised the Company to purchase in the market up to 18,797,831 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5.0 pence per share and a maximum price per share of not more than 105% of the average market value for the ordinary shares in the Company for the five business days prior to the date on which the ordinary shares were purchased. As at 31 March 2023 this authority remained effective in respect of 14,651,487 shares; the authority will lapse at the conclusion of the 2023 Annual General Meeting of the Company on 28 July 2023. The rights attached to shares are detailed in the Corporate Governance section on page 49.

### **Share capital – issue of shares**

During the year the Company issued 27,406,266 new ordinary shares for a cash consideration of £17,584,000. At the 2022 Annual General Meeting, held on 10 August 2022, shareholders authorised the Company to allot shares up to a maximum nominal value of £1,879,783.12 (being 37,595,662 ordinary shares) as if any rights of pre-emption did not apply to such allotment. As at 31 March 2023 this authority remained effective in respect of 10,189,396 shares; the authority will lapse at the conclusion of the 2023 Annual General Meeting of the Company on 28 July 2023. The rights

attaching to shares are detailed in the Corporate Governance section on page 49.

### **Fixed assets**

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

### **Financial Instruments**

The Company's financial instruments comprise its investment portfolio, cash balances, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in Note 17 to the financial statements.

### **Energy and carbon**

The Company consumes under 40MWh of energy per year and is deemed a 'low energy user' for the Streamlined Energy and Carbon Reporting (SECR) UK regulation, see page 37 for more details.

### **Events after the balance sheet date**

Details of events after the balance sheet date are in note 20 of the financial statements on page 79.

### **Annual General Meeting**

Notice of the 2023 Annual General Meeting to be held on 28 July 2023 is set out in a separate circular to shareholders along with explanatory comments on the resolutions.

### **Substantial shareholdings**

No disclosures of major shareholdings had been made to the Company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as at the date of this report.

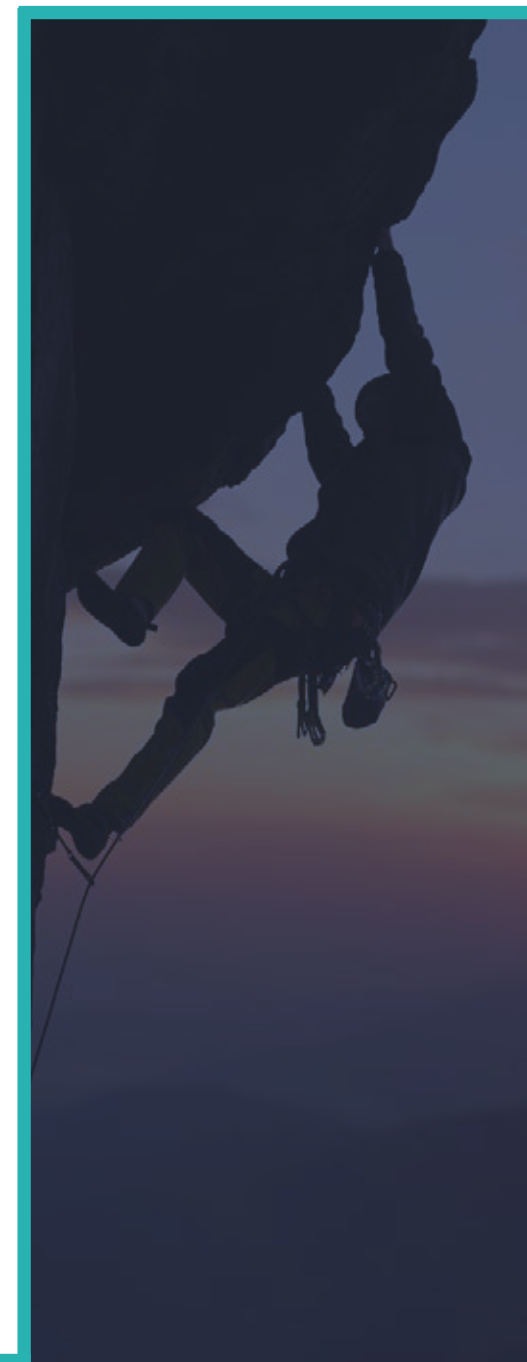
### **Independent auditor**

Mazars LLP have indicated their willingness to continue as auditor of the Company and resolutions to re-appoint them and to authorise the Audit Committee to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

### **Mercia Company Secretarial Services Limited**

Secretary  
15 June 2023





# Directors' Remuneration Report

This report has been prepared by the Directors in accordance with the requirements of Section 410 of the Companies Act 2006. A resolution to approve the Directors' Remuneration Report will be proposed at the Annual General Meeting on 28 July 2023.

The Company's independent auditor, Mazars LLP, is required to give its opinion on certain information included in this report, as indicated below. The auditor's report on these and other matters is set out on pages 52 to 56.

## Directors' remuneration policy

The Board currently comprises five Directors, all of whom are non-executive. The Board does not have a separate Remuneration Committee, as the Company has no employees or executive directors. The Board has established a Nomination Committee, chaired by Mr D P A Gravells and comprising all of the Directors which meets annually (or more frequently if required) to consider the selection and appointment of directors and to make recommendations to the Board as to the level of directors' fees. The Board has not retained external advisers in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type.

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 either new or existing directors' remuneration should be performance-related, and none of the Directors are 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.

The articles of association place an overall limit (currently £150,000 per annum) on directors' remuneration. 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 that any director who was not appointed or re-appointed at one of the preceding two Annual General Meetings shall retire and be subject to re-election at each Annual General Meeting. As a matter of good practice, the Board has adopted the 2019 AIC code recommendation that all directors should seek annual re-election. None of the Directors have 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. A director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services.

## Directors' remuneration for the year ended 31 March 2023 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2023, 31 March 2022 and 31 March 2021, which represent the entire remuneration payable to directors, are shown in Table 1.

**Table 1: Directors' fees**

	Year ended 31 Mar 2023 £	Year ended 31 Mar 2022 £	Year ended 31 Mar 2021 £	2023 change	2022 change	2021 change
D P A Gravells (Chair)	30,000	27,500	27,500	9%	–	6%
A M Conn (resigned 10 August 2022)	8,676	22,000	22,000	(61)%	–	–
S P Devonshire	24,000	22,000	22,000	9%	–	10%
C A McNulty (Chair of Audit Committee)	26,000	24,000	24,000	8%	–	9%
F L G Neale (Senior independent director)	26,000	24,000	24,000	8%	–	20%
R K Ramparia (appointed 27 May 2022)	20,308	–	–	–	–	–
<b>Total</b>	<b>134,984</b>	<b>119,500</b>	<b>119,500</b>			



### Directors' share interests (audited information)

The interests of the Directors of the Company (including the interests of their connected persons) in the issued ordinary shares of the Company, at the beginning of the year, at the end of the year and at the date of this report, are shown in Table 2.

All of the Directors' share interests were held beneficially.

The Company has not set out any formal requirements or guidelines to directors concerning their ownership of shares in the Company.

### Relative importance of spend on pay

As the Company has no employees, the Directors do not consider it appropriate to present tables comparing employee pay to that of the Directors, or comparing remuneration paid to employees with distributions to shareholders.

### Company performance

The graph opposite compares the total return (assuming re-investment of all dividends) to shareholders in the Company over the five years ended 31 March 2023 with the total return from a broad UK equity market index over the same period.

### Statement of voting at Annual General Meeting

At the Annual General Meeting on 10 August 2022 the resolution to approve the Directors' Remuneration Report for the year ended 31 March 2022 was approved by a show of hands. 89.8% of the proxy votes received in relation to the resolution were either for or discretionary.

### Statement by the Chair of the Nomination Committee

In accordance with the Directors' remuneration policy, Directors' fees were reviewed by the Nomination Committee during its meeting on 8 February 2023, when it was decided that there would be no change in the Directors' fees, being £30,000 for the chair, £26,000 for the Chair of the Audit Committee and the senior independent director and £24,000 for the remaining Directors, which were last amended in April 2022.

By order of the Board

### D P A Gravells

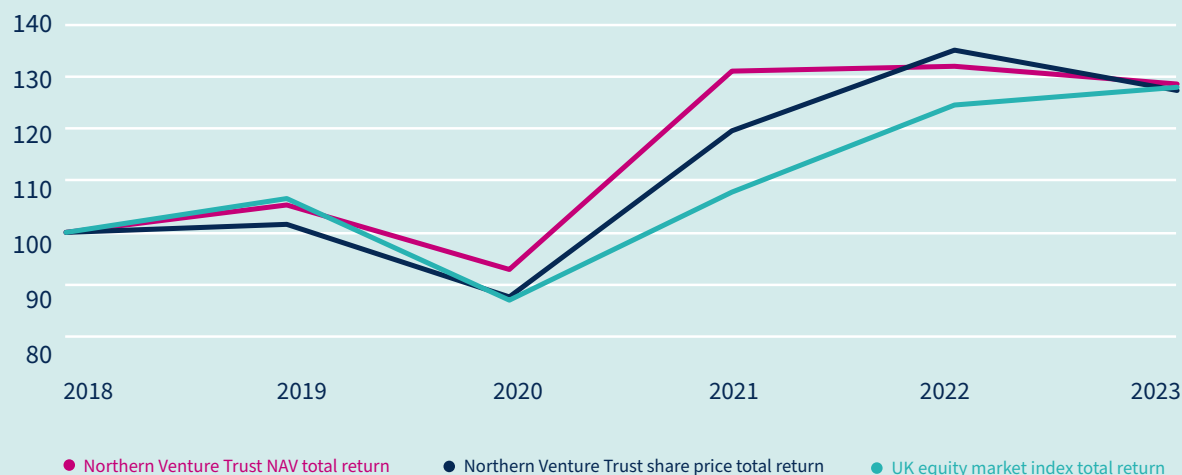
Chair of the Nomination Committee  
15 June 2023

**Table 2: Directors' interests in ordinary shares**

	15 June 2023 Number of shares	31 March 2023 Number of shares	31 March 2022 Number of shares
D P A Gravells (Chair)	64,089	53,756	44,668
A M Conn	N/A	N/A	524,142
S P Devonshire	–	–	–
C A McAnulty	134,438	108,604	341,917
F L G Neale	208,451	191,228	25,331
R K Ramparia	–	–	–

### Return to shareholders in Northern 2 VCT PLC

Five years to 31 March 2023 (March 2018= 100)



# Corporate governance

The Board of Northern 2 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders than reporting against the UK Code.

The Company is committed to maintaining high standards in corporate governance and during the year ended 31 March 2023 has complied with the Principles and Provisions of the AIC Code, except as set out below. The AIC Code is available on the AIC website ([www.theaic.co.uk](http://www.theaic.co.uk)). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Code, and in the preamble to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of Northern

2 VCT PLC, which is an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

## Board of directors

The Company has a board of five non-executive directors, who are considered to be independent of the Company's investment manager, Mercia Fund Management Limited (Mercia). The Board meets regularly in person or by conference call five times each year, and on other occasions as required. The Board is responsible to shareholders for the effective stewardship of the Company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

- consideration of long-term strategic issues;
- valuation of the unquoted investment portfolio; and
- ensuring the Company's compliance with good practice in corporate governance matters.

A brief biographical summary of each director is given on pages 12 and 13.

The Chair, Mr D P A Gravells, leads the Board in the determination of its strategy and in the achievement of its objectives. The Chair is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the Company. He facilitates the effective contribution of the Directors and ensures that they receive accurate, timely and

clear information and that they communicate effectively with shareholders.

The Board has established a formal process, led by the Chair, for the annual evaluation of the performance of the Board, its principal committees and individual directors. The Directors are made aware on appointment that their performance will be subject to regular evaluation. The performance of the Chair is evaluated by a meeting of the other board members under the leadership of Mr F L G Neale, the senior independent director of the Company.

The Company Secretary, Mercia Company Secretarial Services Limited, is responsible for advising the Board through the Chair on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, which 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.

The Company's articles of association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the Board.

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 that any director who was not appointed or re-appointed at one of the preceding two Annual General Meetings shall retire and be subject to re-election at each Annual General Meeting. However the Board has, as a matter of good practice, adopted the AIC Code recommendation that all directors should seek annual re-election.

## Independence of directors

The Board regularly reviews the independence of its members and is satisfied that the Company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity.

The AIC Code recommends that where a director has served for more than nine years, the Board should state its reasons for believing that the individual remains independent. The Board is of the view that a term of service in excess of nine years is not in itself prejudicial to a director's ability to carry out his/her duties effectively and from an independent perspective; the nature of the Company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the Board as a whole. The Company does not have a set limit on the tenure of the members of the Board and the Chair, however the Board has as a matter of good practice adopted the AIC Code recommendation that all directors

should seek annual re-election, and acknowledges that regular refreshment of its membership is desirable.

### Board committees

The Board has appointed three standing committees to make recommendations to the Board in specific areas. 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 pages 44 and 45.

### Audit Committee

During the year the Audit Committee comprised:

Miss C A McNulty (Chair)  
Mr S P Devonshire  
Mr D P A Gravells  
Mr F L G Neale  
Ms R K Ramparia

The Audit Committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the Board in relation to the Company's published financial statements and other formal announcements relating to the Company's financial performance;
- monitoring and making recommendations to the Board in relation to the valuation of the Company's unquoted investments;

- recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the Board any changes required as a result of the review. The terms of reference are available on request from the Company Secretary and on the Company's website. The Audit Committee ordinarily meets three times per year and has

direct access to Mazars LLP, the Company's external auditor. The Board considers that the members of the Committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chair of the Committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience. We note that the Chair, Mr D P A Gravells, is a member of the Audit Committee. Whilst this is not compliant with the provisions of the UK Corporate Governance Code, it is compliant with the provisions of the AIC Code. As all members of the Audit Committee are independent non-executive directors, we believe that this is appropriate.

During the year ended 31 March 2023 the Company did not have an independent internal audit function as it is not deemed necessary given the size of the Company and the nature of the Company's business. However, the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 March 2023 the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the

Company's financial statements, including identification of key risks and confirmation of auditor independence;

- reviewing the Manager's statement of internal controls operated in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of the Manager's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial statements and half-yearly results statement prior to Board approval, including the proposed fair value of investments;
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements;
- reviewing the taxation advisers' VCT status monitoring and compliance reports; and
- considering the effectiveness of the external audit process.

The key area of risk that has been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company is the valuation and existence of unquoted investments, particularly in light of the current economic uncertainty. Another important area of risk that is considered by the Audit Committee

is compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

These issues were discussed with the investment manager and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

### Valuation of unquoted investments:

the investment manager confirmed to the Audit Committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The Audit Committee reviewed the estimates and judgements used in the investment valuations and was satisfied that the final valuations are appropriate.

### Venture capital trust status:

the investment manager confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also confirmed and reported on by Philip Hare & Associates LLP in its capacity as adviser to the Company on taxation matters and the relevant report was reviewed by the Audit Committee.

The investment manager and auditor confirmed to the Audit Committee that they were not aware of any

## Corporate governance *continued*

material misstatements. Having reviewed the reports received from the Manager and auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that Mazars LLP has carried out its duties as auditor in a diligent and professional manner.

Following a detailed review of the draft annual report, the Audit Committee concluded that, taken as a whole, it was considered to be fair, balanced and understandable. The Audit Committee recommended to the Board that the Directors' responsibilities statement in respect of the annual report and the financial statements, should be signed accordingly.

The Committee regularly reviews and monitors the auditor's effectiveness and independence. Mazars LLP has confirmed that it is independent of the Company and has complied with the applicable auditing standards. In accordance with professional guidelines the engagement leader is rotated after at most five years, this is the third year that the current partner has served. As part of its review, the Committee considers the nature and extent of non-audit services supplied by the auditor, all of which must be approved by the Committee. There were no non-audit services contracted for during the year.

### Nomination Committee

During the year the Nomination Committee comprised:

Mr D P A Gravells (Chair)  
Mr S P Devonshire  
Miss C A McAnulty  
Mr F L G Neale  
Ms R K Ramparia

The Nomination Committee considers the selection and appointment of directors and makes annual recommendations to the Board as to the level of directors' fees. The committee monitors the balance of skills, knowledge, diversity and experience offered by board members, and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively. When recommending new appointments to the Board the Committee draws on its members' extensive business experience and range of contacts to identify suitable candidates, and would consider the use of formal advertisements and external consultants where appropriate. The committee recognises the benefits of diversity in the constitution of the Board and it is the Committee's intention that the diversity of representation on the Board will continue to increase over time. New directors are provided with briefing material relating to the Company, its investment manager and the venture capital industry as well as to their own legal responsibilities as directors.

The committee has written terms of reference which are reviewed annually and are available on request from the Company Secretary and on the Company's website.

### Management Engagement Committee

During the year the Management Engagement Committee comprised:

Mr D P A Gravells (Chair)  
Mr S P Devonshire  
Miss C A McAnulty  
Mr F L G Neale  
Ms R K Ramparia

The Management Engagement Committee undertakes a periodic review of the performance of the investment manager, Mercia, and of the terms of the management agreement including the level of fees payable and the length of the notice period. The principal terms of the agreement are set out in Note 3 to the financial statements on page 64.

Following the latest review by the Committee, the Board concluded that the continuing appointment of Mercia was in the interests of the Company and its shareholders as a whole. Mercia has demonstrated its commitment to, and expertise in, venture capital investment since their appointment. Mercia has also performed its company secretarial and accounting duties efficiently and effectively.

### Attendance at Board and committee meetings

Table 1 sets out the number of substantive Board and committee meetings held during the year ended 31 March 2022 and the number attended by each director compared with the maximum possible attendance.

**Table 1: Directors' attendance at meetings**

	Board	Audit Committee	Nomination Committee	Management engagement Committee
Number of meetings held	5*	3	1	1
Attendance (actual/possible):				
D P A Gravells (Chair)	5/5	3/3	1/1	1/1
A M Conn (resigned 10 August 2022)	5/5	N/A	N/A	N/A
S P Devonshire	5/5	3/3	1/1	1/1
C A McAnulty	5/5	3/3	1/1	1/1
F L G Neale	5/5	3/3	1/1	1/1
R K Ramparia (appointed 27 May 2022)	5/5	3/3	1/1	1/1

\*In addition to the five substantive meetings of the Board held during the year, there were a further four meetings held by conference call.

### Corporate responsibility

The Board aims to ensure that the Company takes a positive approach to corporate responsibility, in relation both to itself and to the companies it invests in. This entails maintaining a responsible attitude to ethical, environmental, governance and social issues, and the encouragement of good practice in investee companies. The Board seeks to avoid investing in companies which do not operate within relevant ethical, environmental and social legislation or otherwise fail to comply with appropriate industry standards.

### Investor relations

In fulfilment of the Chair's obligations under the UK Corporate Governance Code, the Chair gives feedback to the Board on any issues raised with him by shareholders with a view to ensuring that members of the Board develop an understanding of the views of shareholders about their company. The Board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the year-end and an opportunity is given to shareholders at the Annual General Meeting to question the Board and the investment manager on matters



relating to the Company's operation and performance. The Manager holds an annual VCT investor seminar to which shareholders are invited. Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting.

Further information can also be obtained via the Company's website.

### Internal control

The Directors have overall responsibility for ensuring that there are in place robust systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial 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 performance and results with the investment manager. Responsibility for accounting and secretarial services has been contractually delegated to Mercia under the management agreement. Mercia has established its own system of internal controls in relation to these matters, details of which have been reviewed by the Audit Committee.

Non-financial internal controls include the systems of operational and compliance controls maintained by the investment manager in relation to the Company's business as well as the management of key risks as referred to in the section headed 'Risk management' below.

The Directors confirm that by means of the procedures set out above, and in accordance with 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council, 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, and subsequent to, the accounting period under review.

### Risk management

Risk management is discussed in the Strategic Report on page 21.

### Share capital, rights attaching to the shares and restrictions on voting and transfer

As at 31 March 2023 there were 185,640,724 ordinary shares in issue (as at that date none of the issued shares were held by the Company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's articles of association,

the shares confer on their holders (other than the Company in respect of any treasury shares) the following principal rights:

- (a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;
- (b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities *pari passu* with the other holders of ordinary shares; and
- (c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy

must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the Company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the Company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the Company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares.

Shareholders, either alone or with other shareholders, have other rights as set out in the Company's articles of association and in the Companies Act 2006.

A member may choose whether their shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of their shares, subject in the case of certificated shares to the rules set out in the Company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the Directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The Directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The Directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the Directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those

## Corporate governance *continued*

shares. Whilst there are no squeeze-out and sell-out rules relating to the shares in the Company's articles of association, shareholders are subject to the compulsory acquisition provisions in Sections 974 to 991 of the Companies Act 2006.

### **Amendment of articles of association**

The Company's articles of association may be amended by the members of the Company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

### **Appointment and replacement of directors**

A person may be appointed as a director of the Company by the shareholders in a general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors; no person, other than a director retiring by rotation or otherwise, shall be appointed or re-appointed as director at any general meeting unless he or she is recommended by the Directors or, not less than seven or more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's articles of association.

Each director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since their appointment as a director of the Company) is to be subject to election as a director of the Company by the members at the first Annual General Meeting of the Company following their appointment. At each Annual General Meeting of the Company, any director who was not appointed or re-appointed at one of the preceding two Annual General Meetings shall retire and be subject to re-election.

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the Company.

A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under

the mental health laws, as set out in the Company's articles of association.

### **Powers of the Directors**

The Company's articles of association specify that, subject to the provisions of the Companies Act 2006 and articles of association of the Company and any directions given by shareholders by special resolution, the business of the Company is to be managed by the Directors, who may exercise all the powers of the Company, whether relating to the management of the business or not, except where the Companies Act 2006 or the articles of association of the Company otherwise require. In particular the Directors may exercise on behalf of the Company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the Company's 2022 Annual General Meeting to make market purchases of up to 18,797,831 ordinary shares at any time up to the 2023 Annual General Meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the Annual General Meeting to be held on 28 July 2023 as set out in a separate circular.

By order of the Board

### **Mercia Company Secretarial Services Limited**

Secretary  
15 June 2023

# Directors' Responsibilities Statement

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK accounting standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Responsibility statement of the Directors in respect of the annual report and financial statements for the period ended 31 March 2023**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

## **Mercia Company Secretarial Services Limited**

Secretary  
15 June 2023

# Independent Auditor's Report

## Opinion

We have audited the financial statements of Northern 2 VCT PLC ('the company') for the year ended 31 March 2023 which comprise the income statement, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of the company's return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities

under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the Directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- reviewing the Directors' going concern assessment that includes the analysis of the company's, medium term viability over the

three years to 31 March 2026, as well as a 'most likely' (base case) scenario and a 'downside case' scenario, as approved by the Board of Directors on 31 May 2023;

- making enquiries of the Directors to understand the year of assessment they considered, the assumptions made, the completeness of adjustments made, and the implication of those when assessing the 'base case' scenario and the 'downside case' scenario. This included examining the minimum cash inflow and committed outgoings;
- assessing the cash flow forecasts for the 'base case' and 'downside case' scenarios and evaluating whether the Directors' conclusion on the liquidity position of the company under both scenarios is reasonable;
- considering the consistency of the Directors' forecasts with other areas of the financial statements and our audit; and
- evaluating the appropriateness of the Directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

In relation to the company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.



These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter	Key Audit Matter	How our scope addressed this matter
<p><b>Valuation and existence of the unquoted investments portfolio</b> (as described on page in the Audit Committee Report and as per the accounting policy note set out on page 47)</p> <p>The company has a significant portfolio of unquoted investments. These are measured at fair value, which is in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent transactions subsequently calibrated, earnings multiples, and net assets. Therefore, the valuations methodologies incorporate a significant level of judgements to ascertain fair value under each method.</p> <p>There is therefore a risk that the judgements made under each methodology may lead to a material misstatement of the investment values. Additionally, there is a risk that investments recorded might not exist.</p> <p>We therefore identified the valuation and existence of unquoted investments as a key audit matter, as it had a significant effect on our overall audit strategy and our allocation of resources, including the involvement of more senior members of the audit team.</p>	<p>Our audit work included but was not limited to:</p> <ul style="list-style-type: none"> <li>• understanding and evaluating management’s process around investment recording and valuations;</li> <li>• we engaged our internal valuation specialists as part of the audit team to perform the below procedures:</li> <li>• considering whether the techniques and methodologies applied for valuing the sample of unquoted investments were in accordance with published guidance, principally the International Private Equity and Venture Capital Valuation Guidelines. This included reviewing and challenging the principles and assumptions used in the valuation of investments;</li> <li>• for investments valued using the recent transaction method, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be carried out on an arm’s-length basis and therefore suitable as an input to the valuation;</li> <li>• for investments valued using the earning multiple, we reviewed the reasonableness of the multiple used when compared to similar companies in the market. We also agreed the inputs, such as holdings and earning figures used, to supporting evidence;</li> <li>• for investments valued after latest funding round, we recalculated the enterprise value used by obtaining supporting evidence (i.e. share and loan certificates and bank statements).</li> <li>• examining past date comparison points to understand variations in data and valuation model drivers;</li> <li>• ascertaining the existence of investment holdings by agreeing the holdings to share certificates and loan certificates, and reviewing Companies House documentation to verify total share capital of the investees; and</li> <li>• reviewing the adequacy and appropriateness of disclosures of unquoted investments in accordance with relevant accounting standards, including considerations of the potential effect of changing one or more inputs to reasonably possible alternative valuation assumptions.</li> </ul> <p><b>Our observations</b> Based on the work performed and evidence obtained, we found that the valuation of unquoted investments as at 31 March 2023 to be reasonable and are performed in accordance with the guidelines stated above.</p>	<p><b>Risk of fraud in revenue recognition</b> (as per the accounting policy note set out on page 62)</p> <p>The company has recognised significant income earned on its investments in its income statement. According to the Statement of Recommended Practice issued by the Association of Investment Companies (‘AIC SORP’), recognition of revenue relies upon evidence such as dividend announcements and distribution notices, with an emphasis on timely recognition on an accruals basis and accurate separation between capital and income items.</p> <p>We therefore identified accuracy, completeness and cut-off of revenue as a key audit matter, as it had a significant effect on our overall audit strategy and our allocation of resources, including the involvement of more senior members of the audit team.</p>	<p>Our audit work included but was not limited to:</p> <ul style="list-style-type: none"> <li>• understanding and assessing management’s process for revenue recognition, including considering whether the processes for revenue recognition are in accordance with the requirements of United Kingdom Generally Accepted Accounting Practice and the AIC SORP;</li> <li>• for income from quoted investments, forming an expectation for a selected sample of income using dividend announcements on recognised stock exchanges, where applicable, and checking the point of recognition, including further detailed testing on dividend announcements one month either side of the year-end to verify that dividends were recorded in the correct year and tracing to bank statements;</li> <li>• for income from unquoted investments, agreeing a sample of dividends to distribution notices from the investees and cash receipts during the year directly from investees’ funds;</li> <li>• for a sample of interest income on interest-bearing unquoted investments, verifying the key input data and re-performing the calculation of income received, as well as agreeing to cash receipts;</li> <li>• for a sample of interest income on money market fund agreeing to the bank letters and the evidence of the cash receipts;</li> <li>• testing the realised movements on investments by agreeing the proceeds to bank statements and investment sale agreements, as well as recalculating the movement based on book cost and proceeds; and</li> <li>• performing cut-off testing to verify that dividend income and any investment sales during the year have been recorded in the appropriate period.</li> </ul> <p><b>Our observations</b> Based on the work performed and evidence obtained, we consider the methodology used in recognising revenue to be appropriate.</p>

## Independent Auditor's Report *continued*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,065,000 (2022: £1,049,000)
How we determined it	The overall materiality level has been calculated with reference to the company's net assets, of which it represents approximately 1% (2022: 1% of net assets).
Rationale for benchmark applied	Net assets have been identified as the principal benchmark within the financial statements as they are considered to be the main focus of the shareholders. The significant degree of judgements underpinning the valuation of unquoted investments is the main rationale behind the risk of error we identified in the valuations that could give rise to a material misstatement. 1% has been chosen as it is a generally accepted auditing practice for investment trust audits and the Company is a public interest entity.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Based on our risk assessments, together with our assessment of the overall control environment and the consideration of our previous audit experience with the company, our performance materiality was set at £799,000 (2022: £786,000), which is approximately 75% of overall materiality (2022: 75% of overall materiality).
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £32,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We have also determined a lower level of specific materiality for certain areas, such as directors' remuneration and related party transactions.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the Directors made subjective judgements such as making assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

### Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

## Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in;

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

## Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 41;
- directors' explanation as to its assessment of the entity's prospects, the year this assessment covers and why the year is appropriate set out on page 40.

- directors' statement on fair, balanced and understandable set out on page 51;
- board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 48;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 21; and;
- the section describing the work of the audit committee set out on page 47.

## Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 51, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease

operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: the Data Protection Act 2018, the UK GDPR, the Bribery Act 2010, and anti-money laundering regulations.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- gaining an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considering the risk of acts by the company which were contrary to the applicable laws and regulations, including fraud;
- inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;

## Independent Auditor's Report *continued*

- inspecting correspondence with relevant licensing or regulatory authorities, including HMRC and FCA;
- reviewing minutes of directors' meetings in the year; and
- discussing amongst the engagement team the laws and regulations listed above, and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as the Listing Rules, HMRC Investment Trust rules, the UK Corporate Governance Code, the AIC code of Corporate Governance, the Companies Act 2006 and UK tax legislation. We identified the risk of non-compliance with the provisions of Section 274 of the Income Tax Act 2007, as well as the conditions under the Finance Act 2018 for the maintenance of the VCT approved status, as the principal area of laws and regulations that could have a material impact on the continuance of the company. We engaged internal tax experts to review the company's compliance with the applicable regulations.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of

controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of unquoted investments, revenue recognition (which we pinpointed to accuracy, cut-off and completeness of revenue), and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities,

as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the 'Key audit matters' section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Audit Committee on 22 December 2020 to audit the financial statements for the year ended 31 March 2021 and subsequent financial years. The period of total uninterrupted engagement is three years, covering the years ended 31 March 2021, 31 March 2022, and 31 March 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

### Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

### Stephen Eames (Senior Statutory Auditor)

for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
The Pinnacle  
160 Midsummer Boulevard  
Milton Keynes  
MK9 1FF

15 June 2023



# Income Statement

for the year ended 31 March 2023

	Notes	Year ended 31 March 2023			Year ended 31 March 2022		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>Gain/(loss) on disposal of investments</b>	8	-	(219)	(219)	-	4,491	4,491
<b>Unrealised fair value gains/(losses) on investments</b>	8	-	(1,302)	(1,302)	-	(2,265)	(2,265)
		-	(1,521)	(1,521)	-	2,226	2,226
Dividend and interest income	2	598	-	598	1,314	-	1,314
Investment management fee	3	(505)	(1,514)	(2,019)	(541)	(1,621)	(2,162)
Other expenses	4	(522)	-	(522)	(455)	-	(455)
<b>Return before tax</b>		(429)	(3,035)	(3,464)	318	605	923
Tax on return	5	109	(109)	-	(3)	3	-
<b>Return after tax</b>		(320)	(3,144)	(3,464)	315	608	923
<b>Return per share</b>	7	(0.2)p	(1.7)p	(1.9)p	0.2p	0.4p	0.6p

- The total column of the income statement is the statement of total comprehensive income of the Company prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The supplemental revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in July 2022 by the Association of Investment Companies ('AIC SORP').
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.
- No items were recognised in other comprehensive income during the current or prior year.
- The accompanying notes are an integral part of this statement.

# Balance Sheet

as at 31 March 2023

	Notes	31 March 2023 £000	31 March 2022 £000
<b>Fixed assets</b>			
Investments	8	80,314	77,878
<b>Current assets</b>			
Debtors	12	118	43
Cash and cash equivalents		29,318	27,086
		29,436	27,129
<b>Creditors (amounts falling due within one year)</b>	13	(174)	(153)
<b>Net current assets</b>		29,262	26,976
<b>Net assets</b>		109,576	104,854
<b>Capital and reserves</b>			
Called-up equity share capital	14	9,282	8,145
Share premium	15	38,165	21,952
Capital redemption reserve	15	849	615
Capital reserve	15	59,176	63,642
Revaluation reserve	15	2,015	9,765
Revenue reserve	15	89	735
<b>Total equity shareholders' funds</b>		109,576	104,854
<b>Net asset value per share</b>	16	59.0p	64.4p

The accompanying notes are an integral part of this statement

The financial statements on pages 57 to 79 were approved by the Directors on 15 June 2023 and are signed on their behalf by:

**David Gravells**  
Director

# Statement of changes in equity

## for the year ended 31 March 2023

	Notes	Non distributable reserves				Distributable reserves		Total £000
		Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	
<b>At 1 April 2022</b>		<b>8,145</b>	<b>21,952</b>	<b>615</b>	<b>9,765</b>	<b>63,642</b>	<b>735</b>	<b>104,854</b>
Return after tax		-	-	-	(7,750)	4,606	(320)	(3,464)
Dividends paid	6	-	-	-	-	(6,408)	(326)	(6,734)
Net proceeds of share issues	15	1,371	16,213	-	-	-	-	17,584
Shares purchased for cancellation	15	(234)	-	234	-	(2,664)	-	(2,664)
<b>At 31 March 2023</b>		<b>9,282</b>	<b>38,165</b>	<b>849</b>	<b>2,015</b>	<b>59,176</b>	<b>89</b>	<b>109,576</b>

## for the year ended 31 March 2022

	Notes	Non distributable reserves				Distributable reserves		Total £000
		Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	
<b>At 1 April 2021</b>		<b>8,102</b>	<b>20,175</b>	<b>511</b>	<b>22,343</b>	<b>63,547</b>	<b>822</b>	<b>115,500</b>
Return after tax		-	-	-	(12,578)	13,186	315	923
Dividends paid	6	-	-	-	-	(11,703)	(402)	(12,105)
Net proceeds of share issues	15	147	1,837	-	-	-	-	1,984
Shares purchased for cancellation	15	(104)	(60)	104	-	(1,388)	-	(1,448)
<b>At 31 March 2022</b>		<b>8,145</b>	<b>21,952</b>	<b>615</b>	<b>9,765</b>	<b>63,642</b>	<b>735</b>	<b>104,854</b>

\* The revaluation reserve is generally non-distributable other than that part of the reserve relating to gains/losses on readily realisable quoted investments, which is distributable.

The accompanying notes are an integral part of this statement.

# Statement of cash flows

for the year ended 31 March 2023

	Notes	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
<b>Cash flows from operating activities</b>			
Return before tax		(3,464)	923
Adjustments for:			
(Gain)/loss on disposal of investments		219	(4,491)
Movements in fair value of investments		1,302	2,265
(Increase)/decrease in debtors	12	(75)	1,619
Increase/(decrease) in creditors	13	21	(1,654)
<b>Net cash outflow from operating activities</b>		<b>(1,997)</b>	<b>(1,338)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	8	(17,600)	(16,414)
Sale/repayment of investments	8	13,643	27,840
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(3,957)</b>	<b>11,426</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares		18,075	1,984
Share issue expenses	15	(491)	(60)
Purchase of ordinary shares for cancellation	15	(2,664)	(1,388)
Equity dividends paid	6	(6,734)	(12,105)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>8,186</b>	<b>(11,569)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>2,232</b>	<b>(1,481)</b>
Cash and cash equivalents at beginning of year		27,086	28,567
<b>Cash and cash equivalents at end of year</b>		<b>29,318</b>	<b>27,086</b>



# Notes to the financial statements

## 1. Accounting policies

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

### (a) Basis of accounting

The financial statements have been prepared under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued in July 2022 by the Association of Investment Companies ('AIC SORP').

The financial statements are prepared in sterling which is the functional and presentational currency of the Company and rounded to the nearest £000.

The financial statements have been prepared on a going concern basis under the historical cost convention except investments which are stated at their fair value.

The Directors performed an assessment of the Company's ability to meet its liabilities as they fall due. In performing this assessment, the Directors took into consideration the uncertain economic outlook including:

- the investments and liquid resources held by the Company;
- the fact that the Company has no debt or capital commitments;
- the ability of the Company to meet all of its liabilities and ongoing expenses from its assets, including its year-end cash balance;
- revenue and operating cost forecasts for the forthcoming year;
- the ability of third-party service providers to continue to provide services; and
- potential downside scenarios including a fall in the valuation of the investment portfolio or levels of investment income.

Based on this assessment, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore determine the going concern basis to be appropriate.

### (b) Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates. A price sensitivity analysis is provided in the other price risk sensitivity section of Note 17 on page 74.

The key estimate in the financial statements is the determination of the fair value of the unlisted investments by the Directors as it significantly impacts the valuation of the unlisted investments at the balance sheet date. The fair valuation process involves estimates using inputs that are unobservable.

The key judgement in the valuation of the unquoted investments process is the Directors' determination of the appropriate application of the International Private Equity and Venture Capital (IPEV) guidelines to each unlisted investment. The judgement applied in the selection of the methodology used for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

## Notes to the financial statements *continued*

### (c) Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date).

As permitted by FRS 102 chapters 11 and 12, the Company's investments are recorded at fair value at the point of acquisition and are measured at subsequent reporting dates at fair value, with any changes being recognised in profit or loss. The fair value of the investments held at 31 March 2023 is £80,314,000 (31 March 2022: £77,878,000). In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted. In the case of unquoted investments, fair value is established in accordance with IPEV guidelines by using measurements of value such as calibrating to the price of recent investment and earnings or revenue multiples; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary. The key assumption when using the price of a recent investment as an input to the valuation is that the price obtained remains a reasonable proxy for fair value for a period of time such that an enterprise value can be inferred and subsequently recalibrated where necessary to take account of changes to either the prevailing market conditions or performance of the investee. The price of a recent investment is not a default position for establishing fair value as at the measurement date and when this technique is employed, the resultant valuations are cross-checked for reasonableness by employing an alternative valuation technique. The key assumptions for the multiples approach are the selection of the most appropriate earnings or revenue measure (historic or forecast) and the selection of the multiple itself which may be influenced by the multiples achieved by a range of comparable companies in either private or public transactions.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the revaluation reserve. Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement.

### (d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits, including short-term highly liquid investments and money market funds readily convertible to known amounts of cash.

### (e) Income

Dividends receivable on quoted equity shares are recognised on the ex-dividend date. Dividends receivable on the portfolio of quoted equity investments held for liquidity purposes are recognised on the date of receipt due to the nature of how this portfolio is managed. Dividends receivable on unquoted equity shares are recognised when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed income returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course.

### (f) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue return within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred; and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company. The performance-related element of the investment management fee is charged 100% to capital return.

### (g) Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the Company. The capital column includes realised and unrealised gains and losses on investments and that part of the investment management fee which is allocated to capital return.

**(h) Taxation**

UK corporation tax payable is provided on taxable profits at the current rate. The tax charge for the year is allocated between revenue return and capital return on the 'marginal basis' as recommended in the SORP. Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

**(i) Dividends payable**

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established.

**(j) Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. No provision is established where a reliable estimate of the obligation cannot be made. Provisions are allocated to revenue or capital depending on the nature of the circumstances.

**(k) Share capital account**

The share capital account represents the nominal value of all shares issued by the Company

**(l) Share premium**

The share premium account represents the value paid by shareholders for shares above the nominal value.

**(m) Capital redemption reserve**

The capital redemption reserve is a non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares.

**(n) Revaluation reserve**

Changes in the fair value of investments are dealt with in this reserve.

**(o) Capital reserve**

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; the cost of repurchasing ordinary shares, including stamp duty and transaction costs; and other capital charges and credits charged to this account in accordance with the above policies.

**(p) Revenue reserve**

The revenue reserve comprises the retained earnings of a business from profits made in the current and prior periods.

**(q) Segmental reporting**

The Company has a single operating segment carrying out the investment activity of the Company. All venture investments are based in the UK.

# Notes to the financial statements *continued*

## 2. Income

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
<b>Investment income:</b>		
Dividends from unquoted companies	2	181
Dividends from quoted companies	146	120
<b>Interest receivable:</b>		
Bank deposits*	262	3
Loans to unquoted companies	167	1,002
Listed interest-bearing investments	21	8
	<b>598</b>	<b>1,314</b>

\* Denotes income arising from investments not designated as fair value through profit or loss at the time of acquisition.

## 3. Investment management fee

	Year ended 31 March 2023			Year ended 31 March 2022		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Basic investment management fee	505	1,514	2,019	541	1,621	2,162
Performance-related fee	-	-	-	-	-	-
	<b>505</b>	<b>1,514</b>	<b>2,019</b>	541	1,621	2,162

Mercia Fund Management Limited (Mercia) provides investment management, secretarial and administrative services to the Company under an agreement dated 20 December 1999, which may be terminated at any time by not less than twelve months' notice being given by either party.

The Manager receives a basic management fee, payable quarterly in advance, at the rate of 2.06% per annum of net assets calculated half-yearly as at 31 March and 30 September. The fee due on the value of liquid assets above the threshold of £20 million attracts a reduced rate of 1% per annum. The Manager bears the cost of the fees of Brewin Dolphin for managing the listed interest-bearing and equity portfolios. The Manager also provides administrative and secretarial services to the Company for a fee of £67,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

The Manager is entitled to receive a performance-related management fee equivalent to 12% of the amount, if any, by which the total return in each financial year (expressed as a percentage of opening net asset value) exceeds a performance hurdle. The hurdle is a composite rate based on (a) 7% on average long-term investments, (b) the higher of (i) base rate plus 1% and (ii) 2.5% on average cash and interest bearing investments, (c) base rate plus 4% on average listed equity investments during the year. The hurdle rate for the year ended 31 March 2023 was 6.2% (year ended 31 March 2022: 6.0%).



Following a period in which net assets decline, a 'high water mark' will apply to the calculation of the performance-related fee but will be then adjusted downwards to the extent that a positive return is achieved in the following financial year. The performance-related management fee is subject to an overall cap of 2.25% of net assets. Any performance-related element of the investment management fee is charged 100% to capital return. There were no performance-related management fees due in respect of the year ended 31 March 2023 (2022: nil).

The total running costs of the Company, excluding performance-related management fees, are capped at 2.9% of its net assets and Mercia has agreed that any excess will be refunded by way of a reduction in its fees.

#### 4. Other expenses

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Administrative and secretarial services	67	62
Directors' remuneration	135	120
National Insurance contributions	19	14
Auditor's remuneration – audit services	58	38
– non-audit services	–	–
Legal and professional expenses	19	38
Share issue promoter's commission	43	43
Other expenses	181	140
	<b>522</b>	455

Information on directors' remuneration is given in the Directors' Remuneration Report on pages 44 and 45.

## Notes to the financial statements *continued*

### 5. Tax on return for the year

	Year ended 31 March 2023			Year ended 31 March 2022		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>(a) Analysis of charge/(credit) for the year</b>						
UK corporation tax payable/(recoverable) on the return for the year	(109)	109	-	3	(3)	-
<b>(b) Tax reconciliation</b>						
Return before tax	(429)	(3,035)	(3,464)	318	605	923
Return multiplied by the standard rate of UK corporation tax of 19.0% (2021: 19.0%)	(81)	(577)	(658)	60	115	175
Effect of:						
UK dividends not subject to tax	(28)	-	(28)	(57)	-	(57)
Capital returns not subject to tax	-	42	42	-	(853)	(853)
Movements in fair value of investments not subject to tax	-	247	247	-	430	430
Increase in surplus management expense	-	397	397	-	305	305
<b>Tax (credit)/charge for the year</b>	<b>(109)</b>	<b>109</b>	<b>-</b>	<b>3</b>	<b>(3)</b>	<b>-</b>

### (c) Factors which may affect future tax charges

The Company has not recognised a deferred tax asset in respect of surplus management expenses carried forward of £7,902,000 (31 March 2022: £5,790,000), as the Company may not generate sufficient taxable income in the foreseeable future to utilise these expenses. There is no other unprovided deferred taxation.

Approved venture capital trusts are exempt from tax on capital gains within the Company. Since the Directors intend that the Company will continue to conduct its affairs so as to maintain its approval as a venture capital trust, no current or deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

## 6. Dividends

	Year ended 31 March 2023			Year ended 31 March 2022		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>(a) Recognised as distributions in the financial statements for the year</b>						
Previous year's second interim and final dividend	326	2,682	3,008	402	8,453	8,855
Current year's interim dividend	-	3,726	3,726	-	3,250	3,250
	<b>326</b>	<b>6,408</b>	<b>6,734</b>	402	11,703	12,105
<b>(b) Paid and proposed in respect of the year</b>						
Interim paid – 2.0p (2022: 2.0p) per share	-	3,726	3,726	-	3,250	3,250
Final proposed – 1.3p (2022: 1.6p) per share	-	2,118	2,118	326	2,280	2,606
	<b>-</b>	<b>5,844</b>	<b>5,844</b>	326	5,530	5,856

The revenue dividends paid and proposed in respect of the year form the basis for determining whether the Company has complied with the requirements of Section 274 of the Income Tax Act 2007 as to the distribution of investment income.

## 7. Return per share

The calculation of the return per share is based on the loss after tax for the year of £3,464,000 (2022: profit £923,000) and on 187,331,778 (2022: 162,327,282) shares, being the weighted average number of shares in issue during the year.

## 8. Investments

All investments are accounted for as fair value through profit or loss on initial recognition, therefore all gains and losses arising on these investments are reflected through the profit or loss.

FRS 102, including subsequent amendments, requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

- Level 1 – unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – inputs that are unobservable (ie for which market data is unavailable) for the asset or liability.

## Notes to the financial statements *continued*

	31 March 2023 £000	31 March 2022 £000
<b>Level 1</b>		
Quoted venture capital investments	1,482	3,001
Listed equity investment funds	6,913	7,932
<b>Level 2</b>		
Listed interest-bearing investment fund	1,667	1,290
<b>Level 3</b>		
Unquoted venture capital investments	70,252	65,655
	<b>80,314</b>	<b>77,878</b>

Movements in investments during the year are summarised as follows:

	Venture capital –unquoted Level 3 £000	Venture capital – quoted Level 1 £000	Listed equity Level 1 £000	Listed interest-bearing Level 2 £000	Total £000
Book cost at 31 March 2022	59,507	731	6,549	1,326	68,113
Fair value adjustment at 31 March 2022	6,148	2,270	1,383	(36)	9,765
Fair value at 31 March 2022	65,655	3,001	7,932	1,290	77,878
Movements in the year:					
Purchases at cost	15,963	–	1,036	601	17,600
Disposals – proceeds	(11,642)	(429)	(1,486)	(86)	(13,643)
– net realised gains/(losses) on disposal	(315)	167	(58)	(13)	(219)
Movements in fair value	591	(1,257)	(511)	(125)	(1,302)
<b>Fair value at 31 March 2023</b>	<b>70,252</b>	<b>1,482</b>	<b>6,913</b>	<b>1,667</b>	<b>80,314</b>
Comprising:					
Book cost at 31 March 2023	69,592	689	6,191	1,828	78,300
Fair value adjustment at 31 March 2023	660	793	722	(161)	2,014
	<b>70,252</b>	<b>1,482</b>	<b>6,913</b>	<b>1,667</b>	<b>80,314</b>
Equity shares	51,737	1,482	6,913	–	60,132
Preference shares	7,302	–	–	–	7,302
Interest-bearing securities	11,213	–	–	1,667	12,880
	<b>70,252</b>	<b>1,482</b>	<b>6,913</b>	<b>1,667</b>	<b>80,314</b>



The gains and losses included in the above table have all been recognised in the income statement on page 57. The listed equity category in the table above comprises quoted investment funds which hold listed equity securities. The listed interest-bearing category in the table above comprises quoted investment funds which hold listed interest-bearing securities.

FRS 102 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of each investee company. See Note 17 for details of the impact of sensitivity analysis on the financial statements.”

Details of movements in the venture investment portfolio during the year is provided in the investment portfolio section on page 23.

At 31 March 2023 there were no commitments (31 March 2022: nil) in respect of investments approved by the Manager but not yet completed.

## 9. Investment disposals

Disposals of venture investments during the year were as follows:

	Original cost £000	Carrying value at 31 March 2022 £000	Disposal proceeds £000	Realised gain against carrying value £000
Lineup Systems - disposal of entire holding	975	7,222	7,288	66
Knowledgemotion – disposal of entire holding	1,778	3,040	3,069	29
Intechnica – disposal of entire holding	246	271	558	287
Fresh Approach – amortisation of loan notes	503	527	503	(24)
Ideagen – disposal of entire holding	42	262	429	167
AVID – deferred proceeds	–	–	92	92
Hello Soda – deferred proceeds	–	–	73	73
Axial Systems Holdings – disposal of entire holding	1,004	567	41	(526)
S&P coil – deferred proceeds	–	–	15	15
Customs Connect Group – amortisation of loan notes	3	–	3	3
Channel Mum – disposal of entire holding	1,369	330	–	(330)
	<b>5,920</b>	<b>12,219</b>	<b>12,071</b>	<b>(148)</b>

The cost of the venture investments disposed of in the preceding financial year was £11,575,000, for disposal proceeds totalling £26,154,000.

## Notes to the financial statements *continued*

### 10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2023 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 23, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2023		31 March 2022	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Evotix (formerly SHE)</b>				
Ordinary shares	2,518	11,529	1,874	4,751
Loan Stock	–	–	644	644
	<b>2,518</b>	<b>11,529</b>	<b>2,518</b>	<b>5,395</b>
<b>Volumatic Holdings</b>				
Ordinary shares	216	3,275	216	3,339
	<b>216</b>	<b>3,275</b>	<b>216</b>	<b>3,339</b>
<b>Grip-UK (t/a Climbing Hangar)</b>				
Ordinary shares	513	513	513	513
Preference shares	2,700	2,700	2,700	2,700
	<b>3,213</b>	<b>3,213</b>	<b>3,213</b>	<b>3,213</b>
<b>Rockar</b>				
Ordinary shares	1,414	1,775	1,414	1,161
Loan Stock	352	855	279	719
	<b>1,766</b>	<b>2,630</b>	<b>1,693</b>	<b>1,880</b>
<b>Tutora (t/a Tutorful)</b>				
Ordinary shares	1,682	1,682	1,035	919
Loan Stock	808	913	808	846
	<b>2,490</b>	<b>2,595</b>	<b>1,843</b>	<b>1,765</b>
<b>Gentronix</b>				
Ordinary shares	1,060	2,526	1,060	1,149
Loan Stock	104	104	104	104
	<b>1,164</b>	<b>2,630</b>	<b>1,164</b>	<b>1,253</b>
<b>Newcells Biotech</b>				
Ordinary shares	1,612	1,612	1,612	1,928
Loan Stock	645	681	–	–
	<b>2,257</b>	<b>2,293</b>	1,612	1,928

	31 March 2023		31 March 2022	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Biological Preparations Group</b>				
Ordinary shares	221	–	221	2
Preference shares	340	–	340	340
Loan Stock	1,605	2,069	1,605	1,605
	<b>2,166</b>	<b>2,069</b>	<b>2,166</b>	<b>1,947</b>
<b>Adludio</b>				
Ordinary shares	1,916	1,916	1,278	1,278
	<b>1,916</b>	<b>1,916</b>	<b>1,278</b>	<b>1,278</b>
<b>Clarilis</b>				
Ordinary shares	1,828	1,828	1,828	1,911
	<b>1,828</b>	<b>1,828</b>	<b>1,828</b>	<b>1,911</b>
<b>Administrate</b>				
Ordinary shares	2,148	1,720	1,920	1,380
	<b>2,148</b>	<b>1,720</b>	<b>1,920</b>	<b>1,380</b>
<b>Buoyant Upholstery</b>				
Ordinary shares	154	804	153	1,791
Loan Stock	903	903	903	903
	<b>1,057</b>	<b>1,707</b>	<b>1,056</b>	<b>2,694</b>
<b>Netacea</b>				
Ordinary shares	1,361	1,361	–	–
Loan Stock	322	322	–	–
	<b>1,683</b>	<b>1,683</b>	–	–
<b>Social Value Portal</b>				
Ordinary shares	1,680	1,680	–	–
	<b>1,680</b>	<b>1,680</b>	–	–
<b>Pure Pet Food</b>				
Ordinary shares	1,284	1,342	1,284	1,344
Loan Stock	321	327	–	–
	<b>1,605</b>	<b>1,669</b>	<b>1,284</b>	<b>1,344</b>

## Notes to the financial statements *continued*

	31 March 2023		31 March 2022	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Project Glow Topco (t/a Currentbody.com)</b>				
Ordinary shares	1,544	1,544	1,544	1,544
	<b>1,544</b>	<b>1,544</b>	<b>1,544</b>	<b>1,544</b>
<b>Oddbox</b>				
Ordinary shares	355	24	355	3,098
Loan Stock	647	665	–	–
	<b>1,002</b>	<b>689</b>	<b>355</b>	<b>3,098</b>
<b>Medovate</b>				
Ordinary shares	1,611	486	1,450	1,332
	<b>1,611</b>	<b>486</b>	<b>1,450</b>	<b>1,332</b>
<b>Sorted Holdings</b>				
Ordinary shares	2,552	–	2,552	–
Loan Stock	164	190	164	177
	<b>2,716</b>	<b>190</b>	<b>2,716</b>	<b>177</b>
<b>Lineup Systems</b>				
Ordinary shares	–	–	175	6,422
Loan Stock	–	–	800	800
	–	–	<b>975</b>	<b>7,222</b>
<b>Knowledgemotion</b>				
Ordinary shares	–	–	1,778	3,040
	–	–	<b>1,778</b>	<b>3,040</b>
<b>Intechnica</b>				
Ordinary shares	–	–	1,607	1,770
	–	–	<b>1,607</b>	<b>1,770</b>

Additional information relating to material investments in unquoted companies is given on pages 26 to 33.

## 11. Significant interests

At 31 March 2023 the Company held significant investments, amounting to 20% or more of the equity capital of an undertaking, in the following companies:

Company	Registered office address	Investment type	Equity £000	Debt £000	Total investment cost £000
Gentronix	Block 23 Mereside, Alderley Park, Alderley Edge, Cheshire SK10 4TG	Unquoted	1,060	104	1,164
Biological Preparations Group	Unit 12 A-C Pantglas Industrial Estate, Bedwas, Caerphilly CF83 8DR	Unquoted	561	1,605	2,166
Volumatic Holdings	Taurus House, Endemere Road, Coventry CV6 5PY	Unquoted	216	–	216
Pure Pet Food	Unit 4 Chain Bar Road, Cleckheaton BD19 3QF	Unquoted	1,284	321	1,605

During the period Northern 2 VCT PLC received loan note interest totalling £10,000 from Gentronix. No amounts were received from the other significant investments.

## 12. Debtors

	31 March 2023 £000	31 March 2022 £000
Prepayments and accrued income	118	43
	<b>118</b>	<b>43</b>

## 13. Creditors (amounts falling due within one year)

	31 March 2023 £000	31 March 2022 £000
Accruals and deferred income	174	153
	<b>174</b>	<b>153</b>

## 14. Called-up equity share capital

	31 March 2023 £000	31 March 2022 £000
Allotted and fully paid:		
185,640,724 (2022: 162,907,914) ordinary shares of 5.0p	9,282	8,145

The capital of the Company is managed in accordance with its investment policy with a view to the achievement of its investment objective, as set out on page 8. The Company is not subject to externally imposed capital requirements.

During the year the Company issued 27,406,266 ordinary shares of 5.0p for cash at an average premium of 59.4p per share. 4,673,456 ordinary shares were re-purchased for cancellation during the year at a cost of £2,651,000.



## Notes to the financial statements *continued*

### 15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
<b>At 1 April 2022</b>	<b>21,952</b>	<b>615</b>	<b>63,642</b>	<b>9,765</b>	<b>735</b>
Premium on issue of ordinary shares	16,704	-	-	-	-
Share issue expenses	(491)	-	-	-	-
Shares purchased for cancellation	-	234	(2,664)	-	-
Realised on disposal of investments	-	-	(219)	-	-
Transfer on disposal of investments	-	-	6,448	(6,448)	-
Movements in fair value of investments	-	-	-	(1,302)	-
Management fee charged to capital net of associated tax	-	-	(1,623)	-	-
Revenue return after tax	-	-	-	-	(320)
Dividends recognised in the year	-	-	(6,408)	-	(326)
<b>At 31 March 2023</b>	<b>38,165</b>	<b>849</b>	<b>59,176</b>	<b>2,015</b>	<b>89</b>

At 31 March 2023 distributable reserves amounted to £59,826,000 (2022: £65,722,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed interest-bearing and listed equity investments.

### 16. Net asset value per share

The calculation of net asset value per share as at 31 March 2023 is based on net assets of £109,576,000 (2022: £104,854,000) divided by the 185,640,724 (2022: 162,907,914) ordinary shares in issue at that date.

### 17. Financial instruments

The Company's financial instruments comprise equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT-qualifying unquoted and AIM-quoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed asset investments (see note 8) are valued at fair value. For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. Unquoted investments are carried at fair value as determined by the Directors in accordance with current venture capital industry guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet.

In carrying on its investment activities, the Company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the Company are market risk, other price sensitivity risk, credit risk and liquidity risk. The Company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

### **Market risk**

The Company's strategy for managing investment risk is determined with regard to the Company's investment objective, as outlined in the Strategic Report on page 16. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The Company's portfolio is managed in accordance with the policies and procedures described in the Corporate Governance statement on pages 46 to 50, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the Company's assets is monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are set out on page 23. An analysis of investments between debt and equity instruments is given in Note 8

9.2% (2022: 10.3%) by value of the Company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% increase in the bid price of these securities as at 31 March 2023 would have increased net assets and the total return for the year by £503,000 (31 March 2022: £547,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

### **Other price risk sensitivity**

64.1% (2022: 63.1%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. A sensitivity analysis is provided below which recognises that the valuation methodologies employed involve subjectivity in the selection of the key inputs, as described in the valuation policy on page 62. Although the Directors believe that the estimates of fair value are appropriate, the use of different methodologies or assumptions regarding the inputs could lead to different measurements of fair value. Each portfolio company has been categorised as being subject to potentially higher or lower estimation uncertainty by considering a range of factors including the potential disruption to business activities and the availability and extent of cash resources. A greater sensitivity factor has been applied to those investments assessed as being susceptible to higher estimation uncertainty. Whilst the sensitivities applied illustrate the impact of varying the key inputs by the levels specified, it is possible that applying reasonable alternative assumptions to individual investments could lead to measurements of fair value which vary to a greater extent than that illustrated.

## Notes to the financial statements *continued*

As at 31 March 2023 Valuation basis	Fair value of unquoted investments £000	Variable input sensitivity	Impact: increase*		Impact: decrease*	
			£000*	% of net assets	£000*	% of net assets
Earnings/revenue multiple						
Higher sensitivity	1,598	+/- 20%	254	0.24%	155	0.1%
Lower sensitivity	19,559	+/- 10%	1,427	1.3%	1,721	1.6%
Price of a recent investment subsequently calibrated as appropriate						
Higher sensitivity	15,065	+/- 20%	616	0.6%	449	0.4%
Lower sensitivity	34,030	+/- 10%	2,665	2.4%	2,448	2.2%
<b>Total unquoted investments</b>	<b>70,252</b>		<b>4,962</b>	<b>4.5%</b>	<b>4,773</b>	<b>4.3%</b>
<b>As at 31 March 2022</b>						
<b>Valuation basis</b>						
Earnings/revenue multiple						
Higher sensitivity	7,320	+/- 20%	2,018	1.9%	596	0.6%
Lower sensitivity	15,350	+/- 10%	1,489	1.4%	1,449	1.4%
Price of a recent investment subsequently calibrated as appropriate						
Higher sensitivity	15,921	+/- 20%	2,857	2.7%	3,088	2.9%
Lower sensitivity	27,064	+/- 10%	2,792	2.7%	1,474	1.4%
<b>Total unquoted investments</b>	<b>65,655</b>		<b>9,156</b>	<b>8.7%</b>	<b>6,607</b>	<b>6.3%</b>

\* Impact on net assets and net return after taxation.

## Interest rate risk

Some of the Company's financial assets are interest-bearing, of which some are at fixed rates and some variable. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

### (a) Fixed rate investments

The table below summarises weighted average effective interest rates for the Company's fixed rate interest-bearing financial instruments:

	31 March 2023			31 March 2022		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Fixed-rate investments in unquoted companies	8,085	8.7%	2.4	4,938	8.8%	1.8

Although the Company holds investments in loan stocks that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes in isolation upon the value of the unquoted investment portfolio, as interest rate changes are only one factor affecting the market price movements that are discussed above under market price risk.

### (b) Floating rate investments

The Company's floating rate investments comprise floating-rate loans to unquoted companies and cash held in interest-bearing deposit accounts. The benchmark rate which determines the rate of interest receivable is the UK bank base rate for interest bearing deposit accounts, which was 4.25% at 31 March 2023 (31 March 2022: 0.75%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 4.42% at 31 March 2023 (31 March 2022: 1.04%). It is considered that an increase or decrease of 100 basis points in interest rates as at the reporting date would not have a significant effect on the Company's net assets or total return for the year. The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2023 £000	31 March 2022 £000
Floating rate loans to unquoted companies	3,128	4,242
Quoted interest-bearing investment funds	1,667	1,290
Interest bearing deposit accounts	29,318	27,086
	<b>34,113</b>	<b>32,618</b>

## Notes to the financial statements *continued*

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The investment manager and the Board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 31 March 2023 the Company's financial assets exposed to credit risk comprised the following:

	31 March 2023 £000	31 March 2022 £000
Fixed-rate investments in unquoted companies (above)	8,085	4,938
Floating rate loans to unquoted companies (above)	3,128	4,242
Interest-bearing investment funds	1,667	1,290
Interest-bearing deposit accounts	29,318	27,086
Accrued dividends and interest receivable	89	14
	<b>42,287</b>	<b>37,570</b>

Credit risk relating to interest-bearing investment funds is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by major UK and international companies and institutions. Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk. The balances included within unquoted loan investments related to loans which were past due as at 31 March 2023 is nil (31 March 2022: nil). The exposure to credit risk on accrued income is mitigated by performing loan affordability evaluations on investee companies as part of the investment due diligence process.

Those assets of the Company which are traded on recognised stock exchanges and quoted investment funds are held on the Company's behalf by a third party custodian, a nominee company of Brewin Dolphin Limited. Bankruptcy or insolvency of a custodian could cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

Credit risk arising on transactions with brokers relates to transactions in quoted securities awaiting settlement. Risk relating to unsettled transactions is considered to be low due to the short settlement period involved and the high credit quality of the brokers used. The Board further mitigates the risk by monitoring the quality of service provided by the brokers.

The Company's interest-bearing deposit accounts, including short term cash deposits, are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2023 or 31 March 2022.



### **Liquidity risk**

The Company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the Company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer.

The Company's interest-bearing investment fund investments are considered to be readily realisable as they are of high credit quality as outlined above.

The Company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the Board. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 March 2023 these investments were valued at £37,898,000 (31 March 2022: £36,307,000).

### **18. Contingencies**

At 31 March 2023 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £980,000 (31 March 2022: £838,000). The extent to which these amounts will become receivable in due course is dependent on future events.

The Company had no contingent liabilities at 31 March 2023 or 31 March 2022.

### **19. Related party transactions**

Fees payable during the year to the Directors and their interest in shares of the Company are disclosed within the Directors' Remuneration Report on pages 44 and 45.

There were no amounts outstanding and due to the Directors as at 31 March 2023 (31 March 2022: nil).

### **20. Post balance sheet events**

After the year end, on 4 April 2023, the Company issued 10,290,184 ordinary shares for a consideration of £5,855,328 as a result of a prospectus share offer launched during the year ended 31 March 2023.

On 12 April 2023, the Company invested £404,000 in existing portfolio company, Voxpopme, by way of a follow on funding round.

On 25 April 2023, the investment in Adept Technology plc was sold for £337,000, realising a surplus of £6,000 on its 31 March 2023 valuation of £331,000.

On 28 April 2023, the Company invested £1,702,000 in new portfolio company Camena Bioscience, a provider of synthetic DNA.

On 16 May 2023, the investment in Evotix (formerly SHE Software) was sold. The transaction was advanced at the balance sheet date, and as a result the valuation of the investment has been included at the sales price achieved.

On 18 May 2023, the Company invested £241,000 in existing portfolio company, Netacea, by way of a follow on funding round.

# Glossary of terms

## **Alternative performance measure or APM**

APMs are not prescribed by accounting standards but are industry specific performance measures which help users of the annual accounts and financial statements to better interpret and understand performance. Some of the terms in this glossary have been identified as APMs.

## **Cumulative return per share (APM)**

The sum of the published NAV per share plus cumulative dividends paid per share since the Company was launched. We use this measure as it enables comparisons to be made between different VCTs over the whole life of each fund. The cumulative return per share for Northern 2 VCT as at 31 March 2023 comprises the NAV per share of 59.0 pence (2022: 64.4 pence) plus the cumulative dividends paid of 136.0 pence (2022: 132.4 pence) giving a result of 195.0 pence per share (2022: 196.8 pence per share).

## **Cumulative dividends paid**

The total amount of shareholder dividend distributions paid since the Company was launched.

## **Distributable reserves**

The sum of the capital reserve, revenue reserve and that part of the revaluation reserve which is related to readily realisable investments.

## **Dividend yield (APM)**

The sum of dividends proposed or paid in respect of the last 12 months as at a given date expressed as a percentage of the net asset value per share at the start of the period. We use this measure as it shows the dividend income receivable by shareholders over a 12 month period expressed as a theoretical yield based on acquiring a single share at the NAV per share at the start of the period. The dividend yield as at 31 March 2023 is calculated by dividing the dividend per share paid or proposed over the preceding 12 months of 3.6 pence (2022: 3.6 pence) by the NAV per share at the start of the period of 64.4 pence (2021: 71.3 pence) giving a result of 5.6% (2022: 5.0%).

## **Ex-dividend date**

The date immediately preceding the record date for a given dividend. Shareholders who acquire their shares on or after the ex-dividend date will not be eligible to receive the relevant dividend.

## **Gain/loss on disposal of investments**

The profit or loss on the sale of an investment during the year calculated by reference to the proceeds received on sale of the investment less the valuation of the investment at the last annual report date.

### NAV total return (APM)

The theoretical return to a shareholder over a given period based on acquiring shares at the start of the period at the latest published NAV per share then utilising the proceeds of each dividend paid during the period to acquire further shares at the latest published NAV per share as at each ex-dividend date. We use this measure as it enables comparisons to be drawn against an investment index in order to benchmark performance. The result is plotted on page 45 and the calculation follows the method prescribed by the Association of Investment Companies.

	31 March 2023	31 March 2022	Calculation
Closing NAV per share (p)	59.0p	64.4p	a
Dividends paid out (p)	3.6p	7.5p	b
Benefits from re-investing dividends (p)	0.0p	-1.9p	c
<b>Adjusted NAV per share (p)</b>	<b>62.6p</b>	<b>70.0p</b>	d = a + b + c
Opening NAV per share (p)	64.4p	71.3p	e
NAV total return (%)	-2.8%	-1.8%	= (d / e) - 1

### Net asset value or NAV

The amount by which total assets of the Company exceed its total liabilities. It is equal to the total equity shareholders' funds.

### Net asset value per share or NAV per share

Net asset value divided by the number of ordinary shares.

### Ongoing charges excluding performance-related management fees (APM)

The total of investment management fees and other expenses as shown in the income statement, as a percentage of the average net asset value. This measure is disclosed to provide information to shareholders, in line with industry best practice.

	31 March 2023	31 March 2022
Investment management fee	2,019	2,162
Other expenses	522	456
<b>Total expenses (a)</b>	<b>2,541</b>	<b>2,618</b>
Annualised average net assets (b)	117,263	114,108
<b>Ongoing charges (a)/(b) (expressed as a percentage)</b>	<b>2.17%</b>	<b>2.29%</b>

### Record date

The cut-off date on which a shareholder needs to be beneficially entitled to a share on the share register of the Company in order to qualify for a forthcoming dividend.

## Glossary of terms *continued*

### Share price total return (APM)

The theoretical return to a shareholder over a given period based on acquiring shares at the start of the period at the prevailing mid-market share price then utilising the proceeds of each dividend paid during the period to acquire further shares at the share price as at each ex-dividend date. We use this measure as it enables comparisons to be drawn against an investment index in order to benchmark performance. The result is plotted on page 45 and the calculation follows the method prescribed by the Association of Investment Companies.

	31 March 2023	31 March 2022	Calculation
Closing price per share (p)	<b>54.5p</b>	61.5p	a
Dividends paid out (p)	<b>3.6p</b>	7.5p	b
Benefits from re-investing dividends (p)	<b>-0.1p</b>	-1.4p	c
<b>Adjusted price per share (p)</b>	<b>58.0p</b>	<b>67.6p</b>	d = a + b + c
Opening price per share (p)	<b>61.5p</b>	61.0p	e
Share price total return %	<b>-5.6%</b>	10.8%	= (d/e) - 1

### Total return for the year

The total income, gain or loss on disposal of investments and movements in the fair value of investments less ongoing charges for the period, as shown in the income statement.



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