

# Northern 2 VCT PLC

Half-yearly financial report  
30 September 2012



2012

Northern 2 VCT is a Venture Capital Trust (VCT) managed by NVM Private Equity Limited.

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

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# Financial summary

<b>Six months ended 30 September:</b>	<b>2012</b>	<b>2011</b>
<b>Net assets</b>	<b>£56.1m</b>	<b>£45.1m</b>
<b>Net asset value per share</b>	<b>80.1p</b>	<b>78.5p</b>
<b>Return per share</b>		
Revenue	0.6p	1.3p
Capital	2.7p	2.1p
Total	3.3p	3.4p
<b>Interim dividend per share declared in respect of the period</b>	<b>2.0p</b>	<b>2.0p</b>
<b>Cumulative return to shareholders since launch</b>		
Net asset value per share	80.1p	78.5p
Dividends paid per share*	62.4p	56.9p
Net asset value plus dividends paid per share	142.5p	135.4p
<b>Mid-market share price at end of period</b>	<b>65.25p</b>	<b>67.5p</b>
<b>Share price discount to net asset value</b>	<b>18.5%</b>	<b>14.0%</b>

\*Excluding interim dividend payable on 11 January 2013

## Key dates

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Half-yearly results announced

27 November 2012

Shares quoted ex dividend

12 December 2012

Interim dividend paid (to shareholders  
on register on 14 December 2012)

11 January 2013

# Half-yearly management report

for the six months ended 30 September 2012

*The portfolio overall continues to make good progress.*

## Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2012, after deducting the 2011/12 final dividend of 3.5p per share paid in July 2012, was 80.1p (31 March 2012 80.3p). The return per share for the period before dividends, as shown in the income statement, was 3.3p (3.4p in the six months to 30 September 2011). Whilst not complacent, your board views this as a satisfactory outcome given the background of low interest rates and continuing difficulties in the UK economy.

Investment income for the period amounted to £0.80 million. The corresponding period's figure of £1.27 million included a one-off income receipt of £0.5 million on the sale of Promanex Group Holdings.

The board has declared an unchanged interim dividend of 2.0p per share, which will be paid on 11 January 2013 to shareholders on the register on 14 December 2012. Our objective is to maintain the total annual dividend at not less than 5.5p per share, and we have now achieved this in eight successive financial years. Your board is well aware of the importance which shareholders attach to a strong and consistent dividend yield.

I am pleased to report that the strong record of Northern 2 VCT and the other Northern VCTs was recognised when they were named recently as winners of the VCT category at the *Investment Week* Investment Company of the Year Awards 2012, presented in association with the AIC and Trustnet. The judges' key criteria included investment performance, shareholder communications and secondary market trading activity.

## Investments

During the six months ended 30 September 2012 the following holdings were added to the venture capital portfolio:

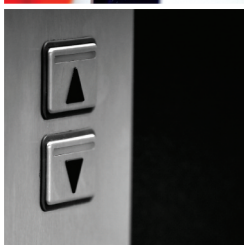
- **Silverwing** (£1,388,000) – developer of non-destructive testing solutions for the oil and gas industry, Swansea
- **Tinglobal Holdings** (£1,000,000) – additional investment in supplier of refurbished mid-range computer equipment, Cirencester
- **Vectura Group** (£102,000) – LSE-listed developer of therapies for the treatment of respiratory diseases, Chippenham
- **Volumatic** (£100,000) – additional investment in manufacturer of intelligent cash-handling equipment, Birmingham
- **Wear Inns** (£753,000) – additional investment in owner of an estate of community pubs in the North East and Yorkshire

Since the end of the period we have completed a new growth capital investment of £1.2m in Haystack Dryers, which manufactures specialised dryers for theme parks, swimming pools and hospitals.

A successful exit was achieved in May 2012 from Closerstill Holdings, the business-to-business exhibition organiser, which was sold to Phoenix Equity Partners for £3.0 million in cash, realising a gain of £2.0 million over original cost. The related investment in Closer2 Investments was at the same time exchanged for a holding of equivalent value in Closerstill Group, a new exhibitions group funded by Phoenix. Since 30 September 2012 our investment in Paladin Group has been sold

to Places For People Group for £3.2 million, a gain of £1.6 million over cost and £0.2 million over the September 2012 valuation, and a recommended bid has been announced for AIM-quoted Tikit Group at a 30% premium to the September 2012 market value.

The portfolio overall continues to make good progress. Inevitably some companies face difficult trading



## **David Gravells** *Chairman*

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conditions and we have recognised this where appropriate in our updated assessment of valuations. Part of our reserve of funds awaiting long-term investment has been allocated to a small portfolio of higher-yielding blue chip listed equities which is making a useful contribution to total return.

### **Shareholder issues**

It is your company's policy to buy back its shares in the market at a 15% discount to the latest published NAV, subject to market conditions, in order to provide liquidity to shareholders. During the six months ended 30 September 2012, 314,652 shares (representing approximately 0.5% of the company's issued capital) were re-purchased at an average price of 67p per share.

The 2012/13 element of the public share offer launched in November 2011 was completed during the period with 1,419,523 new ordinary shares allotted at 82p. In addition 359,042 shares were allotted at 76.8p through the dividend investment scheme. Demand for the company's shares is strong and we have recently announced a small top-up share offer to raise up to £4 million, opening in January 2013.

NVM Private Equity will be holding its annual seminar for investors in the Northern VCTs in London on 18 January 2013 and your directors look forward to meeting shareholders on that occasion.

### **VCT qualifying status**

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The board retains PricewaterhouseCoopers LLP as independent advisers on VCT taxation matters.

### **VCT legislation and regulation**

We expressed concern in the March 2012 annual report about the Government's plans to change the criteria for VCT investments. The revised legislation is now in place; the relaxation of the limits on the size of VCT-qualifying

companies is welcome, but the intended increase to £10 million in the annual limit on the funding which a company can raise from VCTs was vetoed by the European Commission. The limit has instead been set at £5 million, which is lower than we and our managers would have liked.

On the regulatory front the FSA's Retail Distribution Review is likely to bring about significant changes in the way VCTs raise funds through new share issues. The FSA has also published a consultation paper on the retail distribution of unregulated collective investment schemes, which seeks to restrict the categories of retail investors to whom financial advisers can promote VCT share offers. As listed companies, VCTs are already subject to a wide range of regulatory requirements and investor safeguards, and your board believes that the proposed changes are inappropriate. We have responded accordingly to the FSA consultation paper, jointly with the other Northern VCTs, and have supported the representations made by the AIC on behalf of VCTs generally.

### **Prospects**

The outlook for the UK economy is uncertain but it seems unlikely that there will be a sustained improvement in the near future. Your board and managers are focussed on producing the investment returns required to achieve our dividend objective whilst preserving the company's capital base, notwithstanding the challenging environment. Our investment process is well established and emphasises the basic disciplines which are essential to successful venture capital investment.

### **On behalf of the Board**

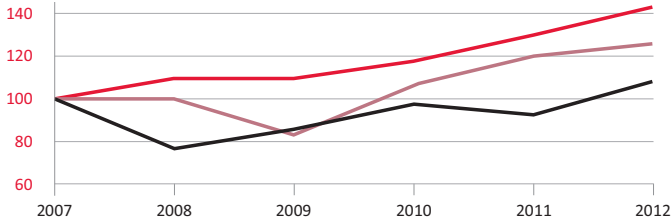
**David Gravells**  
Chairman

27 November 2012

# Five year performance

## Comparative return to shareholders (assuming dividends re-invested)

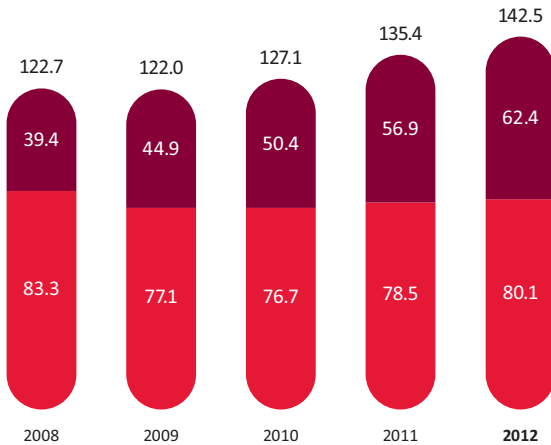
Five years to 30 September 2012 (30 September 2007=100)



— Northern 2 VCT NAV total return  
— Northern 2 VCT share price total return  
— FTSE All-share index total return

## Net asset value and cumulative dividends per share

As at 30 September (pence per share)



● Cumulative dividends paid  
● Net asset value per share

# Investment portfolio

as at 30 September 2012

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments</b>			
Kerridge Commercial Systems	1,740	4,792	8.6
Paladin Group	1,538	2,916	5.2
Wear Inns	1,868	2,365	4.2
Volumatic	2,095	2,095	3.7
Alaric Systems	1,237	1,761	3.2
Tinglobal Holdings	1,988	1,688	3.0
Silverwing	1,388	1,388	2.5
Arleigh Group	817	1,370	2.4
Advanced Computer Software Group*	381	1,342	2.4
Kitwave One	1,246	1,261	2.3
Control Risks Group Holdings	746	1,199	2.1
Promatic Group	987	1,190	2.1
Cawood Scientific	1,031	1,145	2.0
Lineup Systems	974	974	1.7
RCC Lifesciences	995	965	1.7
	<b>19,031</b>	<b>26,451</b>	<b>47.1</b>
Other venture capital investments	12,067	9,584	17.1
<b>Total venture capital investments</b>	<b>31,098</b>	<b>36,035</b>	<b>64.2</b>
Listed equity investments	2,686	2,750	4.9
Listed fixed-interest investments	4,529	4,242	7.6
<b>Total fixed asset investments</b>	<b>38,313</b>	<b>43,027</b>	<b>76.7</b>
Net current assets		13,096	23.3
<b>Net assets</b>		<b>56,123</b>	<b>100.0</b>

\*Quoted on AIM

# Income statement

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	551	551
Movements in fair value of investments	–	1,655	1,655
	–	2,206	2,206
Income	798	–	798
Investment management fee	(142)	(426)	(568)
Other expenses	(154)	–	(154)
<b>Return on ordinary activities before tax</b>	<b>502</b>	<b>1,780</b>	<b>2,282</b>
Tax on return on ordinary activities	(86)	86	–
<b>Return on ordinary activities after tax</b>	<b>416</b>	<b>1,866</b>	<b>2,282</b>
<b>Return per share</b>	<b>0.6p</b>	<b>2.7p</b>	<b>3.3p</b>

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- 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.

## Reconciliation of movements in shareholders' funds

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012 £000
<b>Equity shareholders' funds at 1 April 2012</b>	<b>55,128</b>
Return on ordinary activities after tax	2,282
Dividends recognised in the period	(2,448)
Net proceeds of share issues	1,372
Shares purchased for cancellation	(211)
<b>Equity shareholders' funds at 30 September 2012</b>	<b>56,123</b>

Six months ended 30 September 2011			Year ended 31 March 2012		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	766	766	–	786	786
–	661	661	–	3,124	3,124
–	1,427	1,427	–	3,910	3,910
1,266	–	1,266	1,961	–	1,961
(115)	(346)	(461)	(231)	(884)	(1,115)
(161)	–	(161)	(327)	(14)	(341)
990	1,081	2,071	1,403	3,102	4,415
(245)	112	(133)	(288)	239	(49)
745	1,193	1,938	1,115	3,251	4,366
1.3p	2.1p	3.4p	1.9p	5.5p	7.4p

Six months ended 30 September 2011 £000	Year ended 31 March 2012 £000
45,713	45,713
1,938	4,366
(2,579)	(3,730)
234	13,418
(213)	(4,639)
45,093	55,128

# Balance sheet

(unaudited) as at 30 September 2012

	30 September 2012 £000	30 September 2011 £000	31 March 2012 £000
<b>Fixed asset investments</b>	<b>43,027</b>	39,654	41,160
<b>Current assets</b>			
Debtors	320	637	311
Cash and deposits	13,126	5,367	15,116
	<b>13,446</b>	6,004	15,427
<b>Creditors (amounts falling due within one year)</b>	<b>(350)</b>	(565)	(1,459)
<b>Net current assets</b>	<b>13,096</b>	5,439	13,968
<b>Net assets</b>	<b>56,123</b>	45,093	55,128
<b>Capital and reserves</b>			
Called-up equity share capital	3,505	2,873	3,432
Share premium	24,293	35,679	23,009
Capital redemption reserve	737	426	721
Capital reserve	22,218	3,262	22,473
Revaluation reserve	4,715	1,850	4,695
Revenue reserve	655	1,003	798
<b>Total equity shareholders' funds</b>	<b>56,123</b>	45,093	55,128
<b>Net asset value per share</b>	<b>80.1p</b>	78.5p	80.3p

# Cash flow statement

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012 £000	Six months ended 30 September 2011 £000	Year ended 31 March 2012 £000
<b>Net cash (outflow)/inflow from operating activities</b>	(925)	684	1,931
<b>Taxation</b>			
Corporation tax paid	–	–	(81)
<b>Financial investment</b>			
Purchase of investments	(6,031)	(1,401)	(3,691)
Sale/repayment of investments	6,252	4,646	7,912
Net cash inflow from financial investment	221	3,245	4,221
<b>Equity dividends paid</b>	(2,448)	(2,579)	(3,730)
<b>Net cash (outflow)/inflow before financing</b>	(3,152)	1,350	2,341
<b>Financing</b>			
Issue of ordinary shares	1,440	240	14,185
Share issue expenses	(67)	(6)	(767)
Purchase of ordinary shares for cancellation	(211)	(213)	(4,639)
Net cash inflow from financing	1,162	21	8,779
<b>(Decrease)/increase in cash and deposits</b>	(1,990)	1,371	11,120
<b>Reconciliation of return before tax to net cash flow from operating activities</b>			
Return on ordinary activities before tax	2,282	2,071	4,415
Gain on disposal of investments	(551)	(766)	(786)
Movements in fair value of investments	(1,655)	(661)	(3,124)
Decrease/(increase) in debtors	(9)	161	487
(Decrease)/increase in creditors	(992)	(121)	939
<b>Net cash (outflow)/inflow from operating activities</b>	(925)	684	1,931
<b>Analysis of movement in net funds</b>	1 April 2012 £000	Cash flows £000	<b>30 September 2012 £000</b>
Cash and deposits	15,116	(1,990)	<b>13,126</b>

# Notes to the financial statements

(unaudited) for the six months ended 30 September 2012

- 1** The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) “Financial Statements of Investment Trust Companies”, revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.
- 2** The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2012 and on 69,275,561 (2011 57,422,400) ordinary shares, being the weighted average number of shares in issue during the period.
- 3** The calculation of net asset value per share is based on the net assets at 30 September 2012 divided by the 70,102,784 (2011 57,468,342) ordinary shares in issue at that date.
- 4** The proposed interim dividend of 2.0p per share for the year ending 31 March 2013 will be paid on 11 January 2013 to shareholders on the register at the close of business on 14 December 2012.
- 5** The unaudited half-yearly financial statements for the six months ended 30 September 2012 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been audited or reviewed by the company’s independent auditor and have not been delivered to the Registrar of Companies. The figures for the year ended 31 March 2012 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor’s report on those financial statements was unqualified. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2012.
- 6** The directors confirm that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement “Half-yearly financial reports” issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.
- 7** Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company’s registered office, and on the NVM Private Equity website, [www.nvm.co.uk](http://www.nvm.co.uk).

# Risk management

The board carries out a regular review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board are as follows:

**Investment risk:** many of the company's investments are in small and medium-sized unquoted and AIM quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the investment manager on a regular basis.

**Financial risk:** as most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid, 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 take advantage of new unquoted investment opportunities. 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 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.

**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 terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there tends to be very little, if any, market demand for shares in the smaller companies quoted on AIM.

**Credit risk:** the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. The directors review the creditworthiness of the counterparties to these instruments and cash deposits in addition to ensuring no significant concentration of credit risk is with any one counterparty.

**Liquidity risk:** the company's investments may be difficult to realise. The fact that a stock is quoted on AIM does not guarantee its liquidity and there may be a large spread between bid and offer prices. Unquoted investments are not traded on a recognised stock exchange and are inherently illiquid.

**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 as well as the European Commission's State Aid rules. Changes to the UK legislation or the State Aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. The board and the manager monitor legislative and regulatory developments and where appropriate seek to make representations either directly or through the relevant trade bodies.

**Internal control risk:** 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:** the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis. The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

# Company information

## Directors

David Gravells (Chairman)  
Alastair Conn  
Michael Denny  
Christopher Fletcher  
Frank Neale

## Secretary

Christopher Mellor FCA MCSI

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