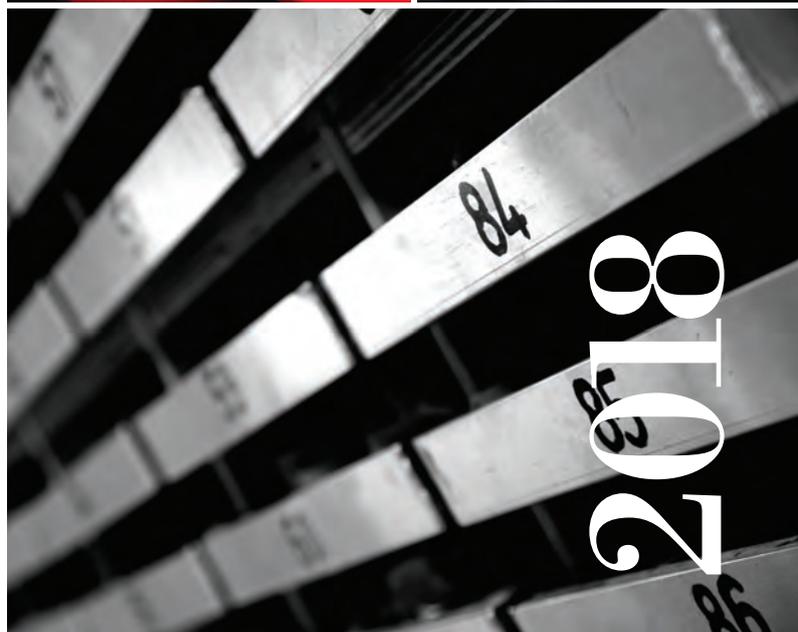


Northern 3 VCT PLC

Annual report and financial statements

31 March 2018



2018

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity.

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

Year ended 31 March:	2018	2017
Net assets	£84.3m	£69.9m
Net asset value per share	94.0p	106.2p
Return per share		
Revenue	1.9p	2.6p
Capital	(4.0p)	12.0p
Total	(2.1p)	14.6p
Dividend per share for the year		
First interim dividend	2.0p	2.0p
Second interim (special) dividend	–	5.0p
Proposed final dividend	3.5p	3.5p
Total	5.5p	10.5p
Cumulative return to shareholders since launch		
Net asset value per share	94.0p	106.2p
Dividends paid per share*	85.9p	75.4p
Net asset value plus dividends paid per share	179.9p	181.6p
Mid-market share price at end of year	89.50p	101.00p
Share price discount to net asset value	4.8%	4.9%
Tax-free dividend yield (based on mid-market share price at the end of the year)		
Including special dividend	N/A	10.4%
Excluding special dividend	6.1%	5.4%

*Excluding proposed final dividend payable 20 July 2018

Key dates

Results announced

17 May 2018

Shares quoted ex dividend

21 June 2018

Record date for final dividend

22 June 2018

Annual general meeting

4 July 2018, 12.00 noon

Muckle LLP, Time Central, 32 Gallowgate, Newcastle upon Tyne NE1 4BF

Final dividend paid

20 July 2018

Chairman's statement

Northern 3 VCT has had a productive year during which ten new VCT-qualifying investments were completed and a successful public share offer was launched and fully subscribed.

Northern 3 VCT has had a productive year during which ten new VCT-qualifying investments were completed and a successful public share offer was launched and fully subscribed. As a result, your company is well positioned to pursue further investment opportunities and to support its evolving portfolio.

Results and dividend

The net asset value (NAV) per share at 31 March 2018, after deducting dividends paid during the year, was 94.0p compared with 106.2p as at 31 March 2017. The change in NAV over the year reflects amongst other items, a revenue return per share of 1.9p, realised gains on investment disposals of 0.9p per share and a net downward unrealised revaluation change equivalent to 3.7p per share, as well as the dividends paid of 10.5p per share. As shown in the graph on page 19, the company's NAV total return over five years remains ahead of the UK equity market total return index which we use as a comparator.

The directors' policy is to set the annual dividend at a level which is sustainable, seeking to smooth out the inevitable fluctuations in annual results. Since 2012, this has resulted in an annual base dividend of 5.5p per share. Your company has significant distributable reserves brought forward from previous periods and is therefore able to maintain the dividend for the year under review. We propose an unchanged final dividend of 3.5p in respect of the year, which together with the interim dividend of 2.0p paid in January makes a total of 5.5p. The proposed final dividend will, subject to approval by shareholders at the annual general meeting, be paid on 20 July 2018 to shareholders on the register on 22 June 2018.

Changes in the VCT rules which came into effect from November 2015 have meant that the company is required to invest mainly in relatively young businesses which need funding for growth and development. Typically, this funding will include a greater proportion of equity rather than income-yielding debt instruments, which will make future returns to the company more dependent on the timing of investment sales. As a result, future dividend payments by the company may be subject to fluctuation, however we remain conscious of the importance which shareholders attach to a regular flow of tax-free income.

Investment portfolio

The net unrealised revaluation change for the year across our venture capital portfolio was a reduction of £1.8 million, largely driven by the performance of a single AIM-quoted investment, Idox, which more than halved in value during the last five months of our financial year after announcing contract delays. The company has subsequently made management and organisational changes which we expect to lead to a recovery in the share price as market confidence is rebuilt. We continue to take a long term view of the potential of our AIM-quoted investments and expect that in some cases, there may be take-overs. For example, subsequent to the year end an agreed bid has been made for Cityfibre Infrastructure Holdings at approximately twice the 31 March 2018 market price.

Overall, the valuation of the portfolio of unquoted investments has increased modestly during the period. Excellent progress has been made by many companies and positive underlying trading trends have been reported. A small number of investments with an exposure to the UK retail and consumer sectors have faced a more challenging environment and our valuation reflects this.

The rate of new investment has been encouraging over the past year with ten new VCT-qualifying investments completed at a total cost of £8.6 million. Taken with follow-on investments totalling £1.2 million, the overall venture capital investment rate approached £10 million for the year. As mentioned above, the composition of the portfolio is shifting towards earlier stage investments. This is expected to generate greater fluctuations in valuations over time given the nature of early stage investments.

Cash proceeds from the realisation of venture capital investments totalled £7.1 million, much of which was represented by investment redemptions at or close to cost. Optilan Group was sold in April 2017 and consequently the valuation had been marked up in the previous year.

In the AIM-quoted portfolio, the modest remaining investment in Gear4music (Holdings) was sold in the market for over four times the original cost and the holding in Hayward Tyler was sold following an agreed take-over bid.



James Ferguson *Chairman*

Shareholder issues

In November 2017, the company raised £20 million of new capital through a public offer of ordinary shares, launched in conjunction with similar offers by Northern Venture Trust and Northern 2 VCT. The offer was fully subscribed in a matter of weeks and we thank all investors for the vote of confidence shown in Northern 3 VCT.

We have maintained our policy of buying back our shares in the market, where necessary to maintain market liquidity, at a discount of 5% to NAV. During the year 1,165,000 shares, equivalent to approximately 1.8% of the opening share capital, were re-purchased for cancellation at an average cost of 93p per share.

Our investment scheme, under which dividends can be re-invested in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate. Shareholders who wish to join the scheme or amend their current participation in the scheme may obtain an updated scheme mandate form from NVM's website at www.nvm.co.uk.

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 reviews the company's compliance position on a regular basis with the manager. Philip Hare & Associates LLP continues to act as independent adviser to the company on VCT taxation matters.

VCT legislation and regulation

Frequent legislative change has unfortunately come to be expected by the VCT industry and the Government again took the opportunity to introduce amendments to the VCT rules as part of the most recent Autumn Budget Statement. The rules governing permitted investment structures will make the provision of debt finance by VCTs to investee companies more difficult as the Government attempts to ensure that VCT capital is genuinely at risk. Barriers to accessing capital for so-called knowledge intensive companies may be reduced with a doubling of the annual and lifetime investment limits for these businesses. VCTs will be required to invest 30% of new funds by the end of the year following the year they are raised, which is likely to encourage smaller and more frequent share issues in future. We welcome the authorities' declared intention to speed up the advanced assurance process and hope to see a tangible difference in this regard. Other changes are considered on page 5 of the annual report and accounts.

The company is required to comply with the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, which came into effect from January 2018. A key information document (KID) has been prepared to summarise the purpose, costs and illustrative performance of Northern 3 VCT for interested market participants. Investment managers have very little discretion to amend the basis of preparation of the KID, which is strictly mandated by the relevant regulations. We welcome increased transparency across the sector but note the risks of basing future expectations on past performance.

Company secretary

Chris Mellor retired as company secretary of Northern 3 VCT on 31 March 2018, having held that position since the company's formation in 2001. I would like to thank him on your behalf for the expert and unobtrusive manner in which he has carried out his duties; We are very grateful to him. James Bryce, who has joined NVM as head of legal and compliance, is our new company secretary and we look forward to working with him.

Outlook

Our manager's reaction to the recent changes to the VCT legislation has been constructive. They have recruited additional members to their investment team and they will continue to apply the rigorous investment principles established over many years. Whilst there was a reduction in investment realisations for the year under review, our manager is currently considering several promising opportunities for sales and we remain confident in their ability to deliver good results for shareholders in the medium to long term.

James Ferguson
Chairman

17 May 2018

Directors and advisers

James Ferguson BA (Chairman)

aged 70, was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust plc, North American Income Trust plc and The Scottish Oriental Smaller Companies Trust plc, a non-executive director of The Independent Investment Trust plc and a former deputy chairman of the Association of Investment Companies. He was appointed to the board in 2001 and became chairman in 2009.

Chris Fleetwood BA FCA

aged 66, is managing partner of io solutions (e-business strategy advisers) and a governor of Teesside University. He was formerly chairman of Darlington Building Society, group chief executive of Whesoe plc and a non-executive director of NCFE Limited. He was appointed to the board in 2001.

Tim Levett MBA

aged 69, is executive chairman of NVM Private Equity LLP, which he co-founded in 1988. He is a non-executive director of Northern Venture Trust PLC and several unquoted companies and a member of the Association of Investment Companies' VCT Forum. He was appointed to the board in 2001.

John Waddell LLB FRSE

aged 62, was until 2015 chief executive of Archangel Investors Limited, a Scottish based syndicate of individual private investors, and sits on the boards of numerous unquoted companies. He also advises two early stage funds and was previously a director of Noble Grossart Limited. He was appointed to the board in 2007.

Secretary and registered office

James Bryce LLB
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SN
Telephone: 0191 244 6000
Fax: 0191 244 6001
E-mail: n3vct@nvm.co.uk

Registered number

04280530

Investment manager

NVM Private Equity LLP
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SN

Listed investment adviser

Speirs & Jeffrey Limited
50 George Square
Glasgow G2 1EH

Independent auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Taxation advisers

Philip Hare & Associates LLP
4–6 Staple Inn
London WC1V 7QH

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
Barclays House
5 St Ann's Street
Newcastle upon Tyne NE1 3DX

Registrars

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

Shareholder information

The trust invests mainly in unquoted venture capital holdings.

The company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in September 2001. The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed equity investments and bank deposits.

Northern 3 VCT PLC is managed by NVM Private Equity LLP (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne, Reading, Manchester and Birmingham. NVM also acts as manager or adviser of three other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC and Northern 2 VCT PLC, and three limited partnerships, NV1 LP, NV2 LP and NVM Private Equity Vintage III LP. NVM has a total of over £350 million under management.

Northern 3 VCT 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 70% by value of its investments (as defined in the legislation) in qualifying holdings, of which at least 70% (for investments

made by funds raised after 5 April 2011 and for all investments made after 5 April 2018) 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 if 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 recently introduced Finance Act 2018 contained further changes to the conditions for a VCT to maintain its approved status. The changes are designed to increase the level of qualifying investments made by VCTs and are being introduced on a phased basis. A non-exhaustive list of the main points is as follows:

- investments made from 15 March 2018 will only be qualifying if they meet the risk-to-capital condition. This principles based condition broadly requires the investee 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 now 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;
- investments made from 6 April 2018 in qualifying holdings must comprise at least 70% of eligible shares, regardless of when the money used to fund the investment was raised; and
- the proportion of the total value of investments required to comprise qualifying holdings will be increased from 70% to 80% for accounting periods beginning on or after 6 April 2019.

Financial calendar

The company's financial calendar for the year ending 31 March 2019 is as follows:

November 2018

Half-yearly financial report for six months ending 30 September 2018 published

January 2019

Interim dividend paid

June 2019

Final dividend and results for year to 31 March 2019 announced; annual report and financial statements published

July 2019

Annual general meeting; final dividend paid

Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph and the Newcastle Journal. 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 by the company's registrars, Equiniti Limited, including details of shareholdings, indicative share prices and information on recent dividends (see page 4 for contact details for Equiniti Limited).

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

Dividend investment scheme

The company operates a dividend investment scheme, giving shareholders the option of reinvesting 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 also be obtained from the Company Secretary (see page 4 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. Shareholders who wish to join the scheme, which is operated by the company's registrars, Equiniti Limited, should visit www.shareview.co.uk, register for a Shareview portfolio and select 'Email' as their preferred method of delivery of company communications.

Strategic report

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.

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 26 and 27.

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 managers' key criteria of good value, 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 early stage and 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 in excess of 3% of the company's total assets at the time of acquisition. 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.

Co-investment arrangements

The company is entitled to participate pro rata to net assets in all VCT-qualifying investment opportunities developed by NVM and regularly invests alongside other funds managed by NVM. Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each VCT-qualifying investment on a predetermined basis.

Investment management

NVM has acted as the company's investment manager since inception. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne, Reading, Manchester and Birmingham and currently has over £350 million under management.

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis. Further information about the terms of the management agreement with NVM and the remuneration payable to NVM is set out in the directors' report on pages 16 and 17 and in Note 3 to the financial statements.

Overview of the year

During the year under review Northern 3 VCT recorded a total return, before dividends, of minus 2.1p per share (2017: return of 14.6p), comprising a revenue return of 1.9p per share and a capital reduction of 4.0p. The revenue return reflected income from investments of £2.4 million, compared with £2.6 million in the preceding year. The capital reduction was largely unrealised and driven principally by a small number of investment revaluation movements as well as a lower level of investment sale activity. The movement in total net assets and net asset value per share is summarised in Table 2.

The net cash outflow from the venture capital portfolio during the year was £2.7 million, comprising investments of £9.8 million less disposal proceeds of £7.1 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, including dividend payments of £7.7 million, the company's total cash balances increased in the year by £9.6 million to £21.5 million. In addition the company holds listed equity investments valued at £6.9 million, down from £8.4 million at 31 March 2017.

Dividends

The directors have declared and proposed dividends totalling 5.5p per share in respect of the year, comprising a 1.5p revenue dividend and a 4.0p capital distribution.

Investment portfolio

During the year ended 31 March 2018, ten new holdings were added to the venture capital portfolio at a cost of £8.6 million, in addition to follow on investments for existing holdings totalling £1.2 million. The portfolio at 31 March 2018 comprised 54 holdings with an aggregate value of £55.9 million.

A summary of the venture capital holdings at 31 March 2018 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/(outflow) £000
2014	9,289	4,458	(4,831)
2015	11,167	20,356	9,189
2016	11,796	7,484	(4,312)
2017	5,620	11,324	5,704
2018	9,818	7,113	(2,705)
Total	47,690	50,735	3,045



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

	£000	Pence per ordinary share
Net asset value at 31 March 2017	69,892	106.2
Net revenue (investment income less revenue expenses and tax)	1,508	1.9
Capital surplus arising on investments:		
Realised net gains on disposals	698	0.9
Movements in fair value of investments	(2,892)	(3.7)
Expenses allocated to capital account (net of tax relief)	(952)	(1.2)
Total return for the year as shown in the income statement	(1,638)	(2.1)
Proceeds of issues of new shares (net of expenses)	24,811	0.4
Shares re-purchased for cancellation	(1,086)	–
Net movement for the year before dividends	22,087	(1.7)
Net asset value at 31 March 2018 before dividends recognised	91,979	104.5
Dividends recognised in the financial statements for the year	(7,719)	(10.5)
Net asset value at 31 March 2018	84,260	94.0

New investments

The new investments completed during the year were:

- **Medovate (£1,432,000)** – medical devices developer, Cambridge
- **Soda Software Labs (£1,301,000)** – data analytics services provider, Manchester
- **Currentbody.com (£1,270,000)** – online marketplace for home use beauty devices, Manchester
- **Volo Commerce (£1,088,000)** – enterprise resource planning platform supporting online merchants, London
- **Knowledgeemotion (£958,000)** – educational video aggregator and distributor, London
- **Primal Food (£955,000)** – protein and clean-label snacks producer, Maidenhead
- **SHE Software Group (£895,000)** – cloud based health & safety software provider, Glasgow
- **Contego Solutions (£481,000)** – identity verification software and solutions, Oxford

- **Angle (£131,000)** – AIM-quoted medical diagnostics provider, Guildford
- **Velocity Composites (£96,000)** – AIM-quoted manufacturer of material kits for aircraft production, Burnley

Investment realisations

Details of investment disposals during the year are given in Note 9 on page 36. The most significant disposals (original cost or proceeds in excess of £0.5 million) are summarised in Table 3.

Optilan Group was the subject of a secondary buy-out transaction funded by Blue Water Energy. The sale generated a total return of over three times the original investment cost and given the timing of exit in April 2017, the valuation had been marked up in the previous period accordingly. **A J Way Group Holdings** (previously Kirton Group) redeemed loan notes totalling £0.7 million following the disposal of a significant trading division and further loan notes totalling £0.7 million were redeemed by **Buoyant Upholstery** and **Volumatic Holdings**.

A total of £2.2m was returned upon liquidation of five holding companies **Hunley**, **Oceanos**, **Saluda**, **Seawise** and **Turbinia**. Having returned approximately 1.8 times the original investment during prior periods, the remaining holding of **S&P Coil Products**, which had been written down to nil, was sold for nominal proceeds.

In the AIM-quoted portfolio, following a sharp increase in valuation since its original flotation on AIM, the remaining investment in **Gear4music (Holdings)** was sold during the year for over four times the original cost. **Hayward Tyler Group** was the subject of a takeover bid by another AIM-quoted business during the year, whereby the consideration was due to be settled by the issuance of new shares in the acquirer. At the time of the offer, the VCT rules prohibited the company from accepting shares in the acquirer, therefore the investment was sold in the market for proceeds of £0.3m versus an original cost of £0.5m.

Strategic report continued

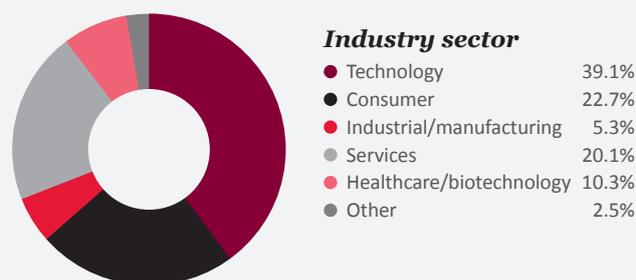
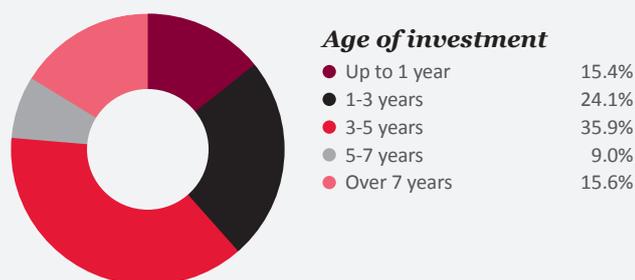


Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
AJ Way Group Holdings – redemption of loan notes	2013	664	664	–
Hunley, Oceanos, Saluda, Seawise and Turbinia	2015	2,270	2,230	(40)
Hayward Tyler – disposal of entire holding	2015	515	281	(234)
Optilan Group – secondary buyout	2008	1,125	2,751	1,626

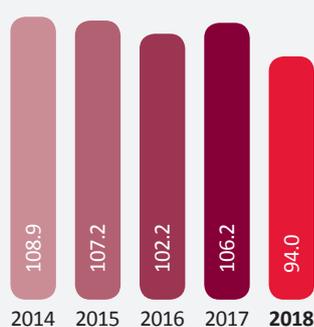
Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings/revenue multiple	16	27,518	49.2
Price of latest funding round	3	3,958	7.1
Original cost	14	14,317	25.6
Original cost less provision	3	779	1.4
Quoted investments at bid price			
Listed on London Stock Exchange	1	272	0.5
Quoted on AIM	17	9,052	16.2
Total	54	55,896	100.0

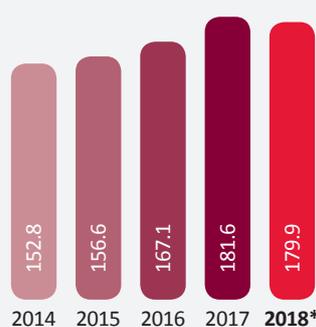
The pie charts above show the composition of the venture capital portfolio at 31 March 2018 by value according to age, industry sector, financing stage and whether quoted or unquoted. The management buyout investments were completed before updates to the VCT rules prohibiting this type of investment activity were enacted, in November 2015.

The underlying trend in trading results for many of the unquoted venture capital portfolio companies has been positive and the valuation of this portfolio increased by £0.5 million during the year. **Closerstill Group, Love Saving Group and Agilitas IT Holdings** in particular made good progress and the respective valuations have been marked up accordingly. This positive performance has been balanced by a small number of companies in the portfolio where trading conditions have been more challenging in the current year, particularly **Entertainment Magpie**, which has an exposure to the UK retail sector. Our investment valuation policy in these instances is cautious.

In the quoted venture capital portfolio, the market prices of several investments reduced, contributing to a net downwards revaluation movement for the year of £2.3 million across the quoted venture capital portfolio.

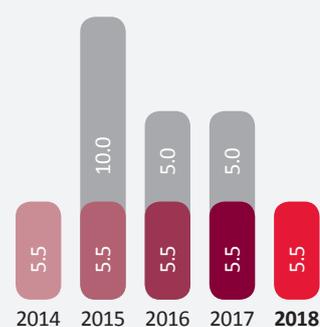


Net asset value (p)



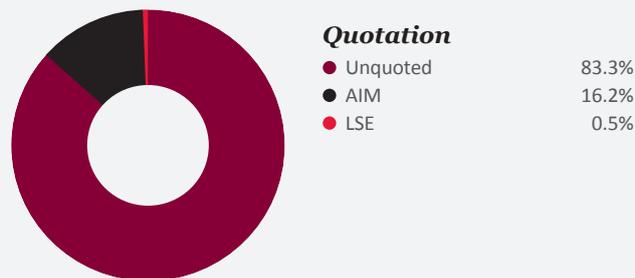
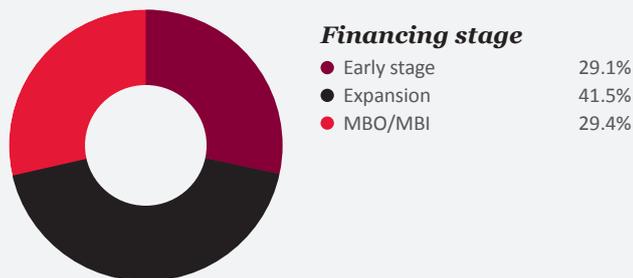
Net asset value plus cumulative dividends paid per share (p)

*excludes dividend proposed but not yet paid



Dividend per share (p)

● Special dividends



The biggest impact (£1.8 million) was due to the performance of **Idox** following a difficult year for the business during which reported earnings fell short of market expectations. The company has subsequently made management and organisational changes which we expect to lead to a recovery in the share price as market confidence is rebuilt. Subsequent to the year end an agreed bid has been made for **Cityfibre Infrastructure Holdings** at approximately twice the 31 March 2018 market price.

The portfolio of listed equity investments produced a good contribution to income, however as widely observed across financial markets, capital valuations came under some pressure during the final quarter of the year.

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 32, which takes account of current industry guidelines for the valuation of venture capital portfolios. Provision against cost is made where an investment is under-performing significantly. 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.

As at 31 March 2018 the number of venture capital investments falling into each valuation category was as shown in Table 4.

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 charts at the bottom of the page opposite show 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 charts at the bottom of this and the opposite page show the dividends (including proposed final dividend) declared in respect of each of the past five financial years and on a cumulative basis since inception.

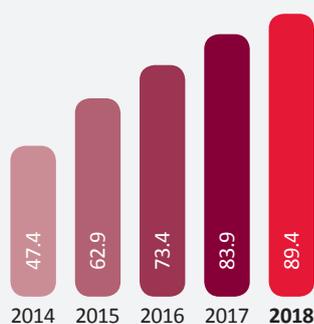
Ongoing charges: the charts at the bottom of this page show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

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.

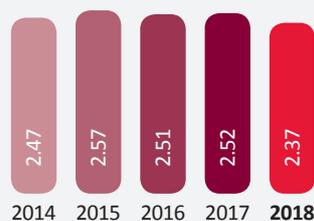
Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. The principal 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:

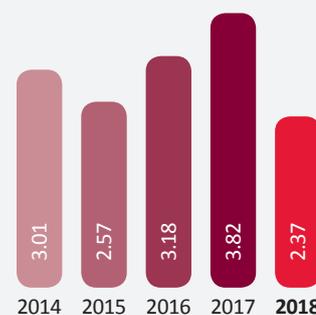
Investment and liquidity risk: investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on their management or 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.



Cumulative dividends per share (p)



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



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

Strategic report continued

Mitigation: the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring 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. 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 relatively 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. **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 appropriate.

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 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 and the board keeps the portfolio 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, which reflects 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. **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 company's assets could be at risk in the absence of an appropriate internal control regime. **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: whilst 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 investment 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.

Additional disclosures required by the Companies Act

The company had no employees during the year and all the directors are male.

As an externally managed investment company, the company is not directly responsible for any greenhouse gas emissions.

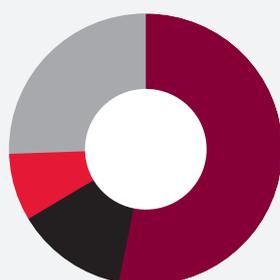
Future prospects

There has been a substantial inflow of cash in the current year owing to the successful share issue launched in September 2017 and the company has a strong reserve of liquidity for investments. Economic conditions in the UK are likely to remain challenging for certain sectors for some time, but we will maintain our careful approach to selecting and monitoring investments with a view to delivering value in future.

By order of the Board

J K Bryce
Secretary

17 May 2018

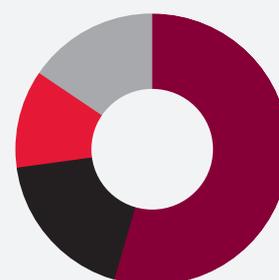


31 March 2018

Asset allocation

- Venture capital – unquoted
- Venture capital – AIM quoted
- Listed equity
- Cash and short term deposits

57.0%
16.0%
11.0%
16.0%



31 March 2017

Investment portfolio

as at 31 March 2018

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
No 1 Lounges	1,748	2,977	3.5
Lineup Systems	974	2,910	3.5
Entertainment Magpie Group	1,360	2,611	3.1
Sorted Holdings	1,521	2,372	2.8
Agilitas IT Holdings	1,448	2,268	2.7
MSQ Partners Group	1,478	2,226	2.6
Love Saving Group	1,017	2,089	2.5
Closerstill Group	1,520	1,985	2.4
Buoyant Upholstery	907	1,866	2.2
Ideagen*	541	1,695	2.0
Wear Inns	1,406	1,589	1.9
Biological Preparations Group	1,915	1,579	1.9
It's All Good	1,131	1,446	1.7
Volumatic	1,251	1,443	1.7
Medovate	1,432	1,432	1.7
	19,649	30,488	36.2
Other venture capital investments			
Graza	1,375	1,375	1.6
Soda Software Labs	1,301	1,301	1.5
Idox*	530	1,290	1.5
Currentbody.com	1,270	1,270	1.5
Customs Connect Group	1,243	1,243	1.5
ECO Animal Health Group*	497	1,214	1.4
Intuitive Holding	1,293	1,159	1.4
Intelling Group	1,118	1,118	1.3
Volo Commerce	1,088	1,088	1.3
Axial Systems Holdings	1,293	1,074	1.3
Knowledgemotion	958	958	1.1
Primal Food	955	955	1.1
SHE Software Group	895	895	1.1
Rockar	883	883	1.0
Haystack Dryers	1,284	805	1.0
Eckoh*	528	680	0.8
Sinclair Pharma*	957	672	0.8
Channel Mum	644	644	0.8
AVID Technology Group	632	632	0.8
Cello Group*	349	613	0.7
Brady*	732	590	0.7
Adept Telecom*	235	537	0.6
Arnlea Holdings	1,138	510	0.6
Netcall*	546	490	0.6
Contego Solutions	481	481	0.6
Lending Works	719	468	0.6
Nasstar*	202	423	0.5
Lanner Group	251	368	0.4
Cityfibre Infrastructure Holdings*	496	311	0.4
Fresh Approach (UK) Holdings	1,286	283	0.3
Vectura Group**	247	272	0.3
Gentronix	468	270	0.3
Angle*	131	172	0.2
Synectics*	171	160	0.2
Collagen Solutions*	271	108	0.1
Velocity Composites*	95	78	0.1
Pebble Beach Systems Group*	564	11	0.1
Summit Corporation*	122	7	–
A J Way Group Holdings	228	–	–
Total venture capital investments	47,125	55,896	66.3
Listed equity investments	7,182	6,874	8.2
Total fixed asset investments	54,307	62,770	74.5
Net current assets		21,490	25.5
Net assets		84,260	100.0

*Quoted on AIM

**Listed on London Stock Exchange

Fifteen largest venture capital investments

No 1 Lounges

Cost	£1,748,000
Valuation	£2,977,000
Basis of valuation	Earnings multiple
Equity held	7.9% (NVM funds total 38.7%)
Business/location	Operator of airport lounges and related services, London
History	Development capital financing, March 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £193,000

Audited financial information:

Year ended 31 December	2016 £m	2015 £m
Sales	22.9	15.0
Operating profit/(loss)	1.0	(0.8)
Loss before tax	(0.1)	(1.9)
Profit/(loss) after tax	0.5	(1.9)
Net liabilities	–	(0.3)

Lineup Systems

Cost	£974,000
Valuation	£2,910,000
Basis of valuation	Revenue multiple
Equity held	17.4% (NVM funds total 52.2%)
Business/location	Multi-channel advertising and media software, London
History	Development capital financing, December 2011, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £14,000

Audited financial information:

Year ended 30 June	2017 £m	2016 £m
Sales	8.6	7.3
Operating profit	0.1	0.2
(Loss)/profit before tax	(0.1)	0.1
Profit after tax	–	0.1
Net liabilities	(0.2)	(0.2)

Entertainment Magpie Group

Cost	£1,360,000
Valuation	£2,611,000
Basis of valuation	Earnings multiple
Equity held	8.6% (NVM funds total 38.2%)
Business/location	Re-commerce website for pre-owned entertainment media and electronic items, Manchester
History	Management buy-out, September 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £48,000

Audited financial information:

Year ended 31 May	2017 £m	2016* £m
Sales	101.1	52.6
Operating profit	0.9	1.3
Loss before tax	(1.0)	(0.2)
Loss after tax	(1.0)	(0.2)
Net assets	0.5	1.5

*8 month period

Sorted Holdings

Cost	£1,521,000
Valuation	£2,372,000
Basis of valuation	Price of last funding round
Equity held	6.8% (NVM funds total 22.1%)
Business/location	Delivery management software platform serving the e-commerce market, Manchester
History	Development capital financing, May 2016, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest nil

Audited financial information:

Year ended 31 May	2016 £m	2015 £m
Sales	2.4	2.5
Operating loss	(1.5)	(0.4)
Loss before tax	(1.7)	(0.5)
Loss after tax	(1.7)	(0.5)
Net assets	3.0	1.7

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

Agilitas IT Holdings

Cost	£1,448,000
Valuation	£2,268,000
Basis of valuation	Earnings multiple
Equity held	12.5% (NVM funds total 55.3%)
Business/location	Provider of outsourced IT inventory management services, Nottingham
History	Management buy-out financing, June 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £100,000

Audited financial information:

Year ended 31 March	2017 £m	2016 £m
Sales	7.7	7.2
Operating profit	0.7	0.6
Loss before tax	(0.1)	(0.2)
Loss after tax	(0.1)	(0.2)
Net assets	0.4	0.5

MSQ Partners Group

Cost	£1,478,000
Valuation	£2,226,000
Basis of valuation	Earnings multiple
Equity held	7.2% (NVM funds total 38.7%)
Business/location	Marketing and communications agency group, London
History	Management buy-out financing, July 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £130,000

Audited financial information:

Year ended 28 February	2017 £m	2016 £m
Sales	87.0	77.6
Operating profit	1.4	1.6
Profit before tax	0.3	0.6
Profit after tax	0.3	1.4
Net assets	0.1	0.6

Love Saving Group

Cost	£1,017,000
Valuation	£2,089,000
Basis of valuation	Earnings multiple
Equity held	8.1% (NVM funds 35.9%)
Business/location	Business to business energy comparison and procurement, Bolton
History	Development capital financing, September 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £44,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	13.2	2.4
Operating profit/(loss)	0.1	(0.2)
Loss before tax	(0.5)	(0.4)
Loss after tax	(0.4)	(0.3)
Net assets	1.4	1.8

*3 month period

Closerstill Group

Cost	£1,520,000
Valuation	£1,985,000
Basis of valuation	Earnings multiple
Equity held	0.9% (NVM funds total 3.0%)
Business/location	Promoter of international business-to-business events, London
History	Secondary buy-out from private equity ownership, March 2015, led by Inflexion Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £55,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	36.5	28.5
Operating profit	0.6	0.7
Loss before tax	(18.8)	(16.0)
Loss after tax	(17.7)	(15.1)
Net assets	146.5	155.7

*10 month period

Fifteen largest venture capital investments

continued

Buoyant Upholstery

Cost	£907,000
Valuation	£1,866,000
Basis of valuation	Earnings multiple
Equity held	11.8% (NVM funds total 64.8%)
Business/location	Manufacturer of upholstered furniture, Nelson
History	Management buy-out financing, July 2013, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £80,000

Audited financial information:

Year ended 2 October	2016 £m	2015 £m
Sales	51.7	53.6
Operating profit	4.9	5.2
Profit before tax	3.0	3.1
Profit after tax	2.2	2.3
Net assets	6.7	5.5

Ideagen

Cost	£541,000
Valuation	£1,695,000
Basis of valuation	Bid price (AIM)
Equity held	0.75% (NVM funds total 1.0%)
Business/location	Supplier of information management software to highly regulated industries, Ruddington
History	Holding acquired through a share placing on AIM in 2015
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £3,000, loan stock interest nil

Audited financial information:

Year ended 30 April	2017 £m	2016 £m
Sales	27.1	21.9
Operating profit	2.6	1.9
Profit before tax	0.7	1.0
Profit after tax	0.7	1.3
Net assets	41.8	30.3

Wear Inns

Cost	£1,406,000
Valuation	£1,589,000
Basis of valuation	Earnings multiple
Equity held	6.8% (NVM funds total 23.9%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing, February 2006, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £120,000

Audited financial information:

Year ended 31 March	2017 £m	2016 £m
Sales	14.2	13.6
Operating profit	1.5	1.2
Loss before tax	–	(0.4)
Loss after tax	(0.4)	(0.5)
Net assets	3.6	3.9

Biological Preparations Group

Cost	£1,915,000
Valuation	£1,579,000
Basis of valuation	Earnings multiple
Equity held	14.1% (NVM funds total 47.5%)
Business/location	Developer and supplier of products based on microbial, antimicrobial, plant extract and enzyme technology, Cardiff
History	Management buy-out financing, March 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £14,000, loan stock interest £158,000

Audited financial information:

Year ended 31 March	2016 £m	2015* £m
Sales	5.4	4.4
Operating profit	0.3	0.2
Loss before tax	(1.1)	(0.9)
Loss after tax	(1.0)	(1.0)
Net (liabilities)/assets	(0.6)	0.4

*15 month period

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

It's All Good

Cost	£1,131,000
Valuation	£1,446,000
Basis of valuation	Earnings multiple
Equity held	9.8% (NVM funds total 30.2%)
Business/location	Manufacturer of premium savoury snack products, Gateshead
History	Development capital financing, February 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £102,000

Audited financial information:

Year ended 31 December	2016 £m	2015 £m
Sales	18.0	12.2
Operating profit	1.5	1.1
Profit before tax	1.1	0.7
Profit after tax	0.9	0.7
Net assets	1.3	0.4

Volumatic Holdings

Cost	£1,251,000
Valuation	£1,443,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.7%)
Business/location	Manufacturer of intelligent cash handling equipment, Coventry
History	Management buy-out, March 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £93,000

Audited financial information:

Year ended 31 March	2017 £m	2016 £m
Sales	6.3	4.9
Operating profit	0.9	0.4
Loss before tax	–	(0.5)
Loss after tax	–	(0.4)
Net assets	1.8	1.8

Medovate

Cost	£1,432,000
Valuation	£1,432,000
Basis of valuation	Cost
Equity held	12.8% (NVM funds total 39.9%)
Business/location	Development of medical devices, Cambridge
History	Development capital financing, November 2017, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest nil

Audited financial information:

The company was established during the year and is yet to produce its first audited accounts.



Directors' report

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.

The directors present their report and the audited financial statements for the year ended 31 March 2018.

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 04280530.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2023 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. 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.

Corporate governance

The statement on corporate governance set out on pages 20 to 24 is included in the directors' report by reference.

Results and dividend

The total result after tax for the year of minus £1,638,000 as shown in the income statement has been transferred to reserves.

The second interim and final dividends for the year ended 31 March 2017 totalling 8.5p and an interim dividend of 2.0p per share in respect of the year ended 31 March 2018 were paid during the year at a cost of £7,719,000 and have been charged to reserves.

The directors have proposed a final dividend of 3.5p per share for the year ended 31 March 2018. Subject to approval of the final dividend at the annual general meeting, the dividend will be paid on 20 July 2018 to shareholders on the register on 22 June 2018.

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 he is aware, there is no relevant audit information of which the company's auditor is unaware and that he has taken all the steps that he could reasonably be expected to have taken as a director in order to make himself 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 principle 21 of the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three year period to March 2021. 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 10 for further details on risk management). 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. As detailed on page 22, the management engagement committee has also considered the company's relationship with the investment manager, NVM, by reference to the performance of the venture capital portfolio and the expertise demonstrated by NVM 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

After making the necessary enquiries, including those made during the preparation of the statement on long-term viability above, the directors believe that it is appropriate to continue to apply the going concern basis in preparing 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.

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

NVM has acted as investment adviser and manager to the company since incorporation. The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements. Mr T R Levett, who is a director of Northern 3 VCT, is also an equity partner in NVM.

The management engagement committee carries out a regular review of the terms of NVM's appointment with a view to ensuring that NVM'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 NVM 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 NVM to the company



Remuneration receivable by NVM

The remuneration receivable by NVM and its executives by virtue of NVM's management agreement with Northern 3 VCT comprises the following:

Remuneration payable by Northern 3 VCT

Basic management fee: NVM 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. The fee arrangements were amended during the current year such that the fee due in relation to the net proceeds of the prospectus share offer launched in September 2017 is reduced to 1% per annum until 30 September 2018. In the year ended 31 March 2018 the basic annual management fee was £1,534,000 (preceding year: £1,416,000).

Performance-related management fee: NVM is entitled to receive an annual performance-related management fee equivalent to 14.2% 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 2018 was 5.7% (preceding year: 6.2%). There was no performance-related management fee due for the year ended 31 March 2018 (preceding year: performance fee due of £889,000).

Accounting and secretarial fee: NVM provides accounting, administrative and secretarial services to the company for a fee of £54,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £53,000.

The total remuneration payable to NVM by Northern 3 VCT in respect of the year, comprising the basic management fee and the accounting and secretarial fee, was £1,588,000.

Under current tax legislation the fees paid by the company to NVM 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 NVM's basic management fee. The annual running costs of the company for the year ended 31 March 2018 were equivalent to 2.37% of average net assets (preceding year: 2.52%).

Remuneration payable by investee companies

Under the management agreement, NVM 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. NVM 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 2018 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern 3 VCT amounted to £246,000 (preceding year: £143,000), and directors' and monitoring fees amounted to £259,000 (preceding year: £255,000).

Executive co-investment scheme

Since 2006 the company has, together with the other funds managed by NVM, participated in a co-investment scheme with the objective of enabling NVM to recruit, retain and incentivise its key investment executives. Under the scheme, executives are required to invest personally (and on the same terms as the company and other funds managed by NVM) in the ordinary share capital of every unquoted investee company in which the company invests. The shares held by executives can only be sold at such time as the funds managed by NVM 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 NVM 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 NVM funds. At 31 March 2018 NVM executives held investments in 41 investee companies acquired at a total cost of £991,000, of which £282,000 was attributable to investments made by Northern 3 VCT.

Share capital – purchase of shares

During the year the company purchased for cancellation 1,165,000 of its own shares, representing 1.8% of the called-up share capital of the company at the beginning of the year, for a consideration of £1,086,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2017 annual general meeting, held in July 2017, shareholders authorised the company to purchase in the market up to 6,975,680 ordinary shares (equivalent to

approximately 10% of the then issued ordinary share capital) at a minimum price of 5p 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 2018 this authority remained effective in respect of 5,810,680 shares; the authority will lapse at the conclusion of the 2018 annual general meeting of the company on 4 July 2018.

Share capital – issue of shares

During the year the company issued 1,109,498 new ordinary shares for a cash consideration of £1,078,000 pursuant to the company's dividend investment scheme and 3,958,863 new ordinary shares were issued for a cash consideration of £4,281,000 relating to a top-up share offer launched in February 2017.

A prospectus share offer was launched in September 2017, which was fully subscribed during the year to 31 March 2018, resulting in 19,961,042 new ordinary shares being issued in November 2017 for a gross cash consideration of £19,998,000.

Fixed assets

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

Annual general meeting

Notice of the 2018 annual general meeting to be held on 4 July 2018 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

KPMG 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

J K Bryce
Secretary

17 May 2018

Directors' remuneration report

The board currently comprises four directors, all of whom are non-executive.

This report has been prepared by the directors in accordance with the requirements of Section 410 of the Companies Act 2006.

The company's independent auditor, KPMG 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 26 and 27.

Directors' remuneration policy

The company is required by the Companies Act 2006 to seek shareholders' approval of the directors' remuneration policy at least every three years, or in the event of a change in the policy if sooner. The directors' remuneration policy has remained unchanged since it was approved by shareholders at the annual general meeting held on 13 July 2017 and, unless there is a change in the policy, it is the current intention of the directors that a resolution for the approval of the directors' remuneration policy will next be considered at the annual general meeting to be held in July 2020.

The board currently comprises four 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 J G D Ferguson and comprising all 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. No views which are relevant to the formulation of the directors' remuneration policy have been expressed to the company by shareholders, whether at a general meeting or otherwise.

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company.

(Mr T R Levett, who is an equity partner in NVM, has an interest in the co-investment scheme referred to in the directors' report on page 17.)

The articles of association place an overall limit (currently £100,000 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. None of the directors has a service contract with the company. On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities. A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances. 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 2018 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2018 and 31 March 2017, which represent the entire remuneration payable to directors, are shown in Table 1.

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 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 a table 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 2018 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 13 July 2017 the resolutions to approve the directors' remuneration report for the year ended 31 March 2017 was approved by a show of hands. 98.4% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the chairman of the nomination committee

The directors' fees payable by the company were set at £25,000 per annum for the chairman and £20,000 per annum for other directors for the year ended 31 March 2018. In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 16 February 2018, when it was recommended that fees should remain the same for the year to 31 March 2019.

By order of the Board

J G D Ferguson
Chairman of the
Nomination Committee 17 May 2018

Table 1: Directors' fees

	Year ended 31 March 2018	Year ended 31 March 2017
J G D Ferguson (Chairman)	25,000	22,500
C J Fleetwood	20,000	17,500
T R Levett*	–	–
J M O Waddell	20,000	17,500
Total	65,000	57,500

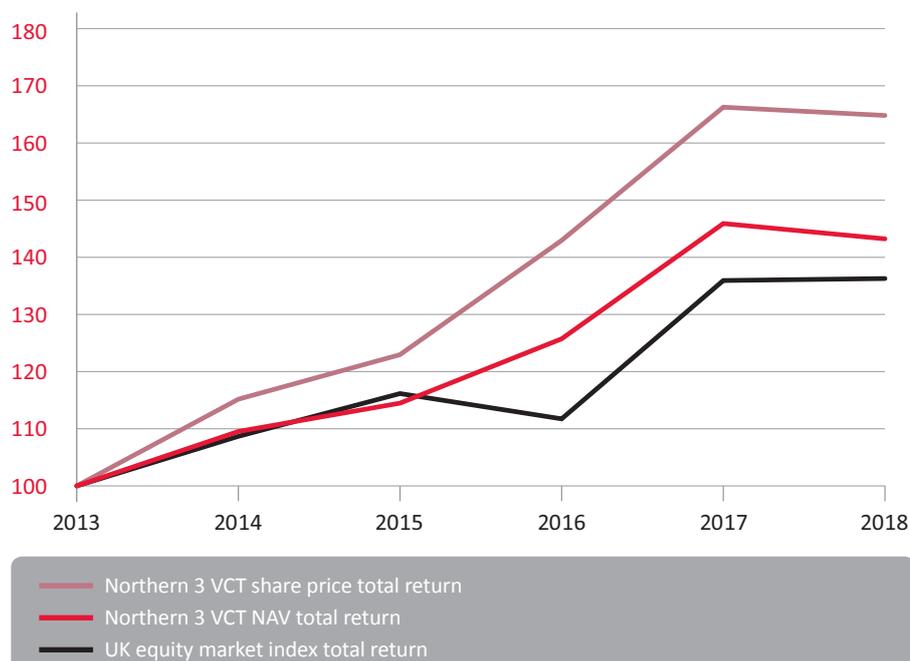
*Mr T R Levett waived his entitlement to directors' fees in respect of both years.

Table 2: Directors' interests in ordinary shares

	17 May 2018	31 March 2018	31 March 2017
J G D Ferguson (Chairman)	656,374	656,374	469,329
C J Fleetwood	75,305	75,305	55,305
T R Levett	298,301	298,301	238,148
J M O Waddell	22,295	22,295	8,094

Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2018 (March 2013 = 100)



Corporate governance

The company is committed to maintaining high standards in corporate governance.

The board of Northern 3 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company. The AIC Code can be viewed at www.theaic.co.uk/aic-code-of-corporate-governance-0.

The board considers that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The company is committed to maintaining high standards in corporate governance and during the year ended 31 March 2018 complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

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 Guide, and in the preamble to the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of Northern 3 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 four non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM Private Equity LLP (NVM). The board meets regularly in person or by conference call quarterly, 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 page 4.

The chairman, Mr J G D Ferguson, leads the board in the determination of its strategy and in the achievement of its objectives. The chairman 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 chairman, 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 chairman is evaluated by a meeting of the other board members under the leadership of Mr C J Fleetwood.

The company secretary, Mr J K Bryce, is responsible for advising the board through the chairman on all governance matters. Mr Bryce was appointed on 1 April 2018 following the retirement of the previous company secretary, Mr C D Mellor. All of the directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings

of the board and its committees. Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties. As all of the directors are non-executive, it is not considered appropriate to identify a member of the board as the senior non-executive director of the company.

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.

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 (with the exception of Mr T R Levett who is an equity partner in NVM, the company's investment manager).

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 director's experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. Accordingly it is not considered appropriate to require directors who have served for more than nine years to seek annual re-election. Nevertheless the board 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 18 and 19.

Audit Committee

During the year the audit committee comprised:

Mr C J Fleetwood (Chairman)
Mr J G D Ferguson
Mr J M O Waddell

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;
- monitoring and making 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 NVM website, www.nvm.co.uk. The audit committee ordinarily meets three times per year and has direct access to KPMG 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 chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The company does not have an independent internal audit function as it is not deemed appropriate 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 2018 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 NVM'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 NVM'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 taxation advisers' VCT status monitoring and compliance reports;
- reviewing the external auditor's detailed reports to the committee on the annual financial statements;
- considering the effectiveness of the external audit process; and
- recommending to the board and shareholders the reappointment of KPMG LLP as the independent auditor of the company.

The key areas of risk that have been identified and considered by the audit committee in relation to the business activities and financial statements of the company are as follows:

- valuation and existence of unquoted investments; and
- 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.

Corporate governance continued

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 made 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 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 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 KPMG LLP has carried out its duties as auditor in a diligent and professional manner.

The committee regularly reviews and monitors the auditor's effectiveness and independence. KPMG LLP has confirmed that it is independent of the company and has complied with the applicable auditing standards. KPMG LLP together with its predecessor KPMG Audit Plc has held office as auditor for fifteen years; in accordance with professional guidelines the engagement leader is rotated after at most five years, and the current director has served for three years. 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. The non-audit services contracted for during the year were tax compliance services (iXBRL tagging). The nature of the services provided was to assist the company with the logistics of digitally submitting the annual report and financial statements to the relevant tax authorities and no input was provided relating to the contents, estimates or disclosures included within the annual report and financial statements.

The fees for the non-audit services were relatively small compared to those for the audit services and the services were provided by a separate team. As such, the committee considers that provision of the non-audit services did not impair the independence of the auditor during the year. The audit committee also considers the requirements and deadlines for mandatory audit tendering and rotation; under current regulations the last period for which KPMG LLP will be permitted to act as auditor of the company will be the year ending 31 March 2023.

Nomination Committee

During the year the nomination committee comprised:

Mr J G D Ferguson (Chairman)

Mr C J Fleetwood

Mr T R Levett

Mr J M O Waddell

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. 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 NVM website, www.nvm.co.uk.

Management Engagement Committee

During the year the management engagement committee comprised:

Mr J G D Ferguson (Chairman)

Mr C J Fleetwood

Mr J M O Waddell

The management engagement committee undertakes a periodic review of the performance of the investment manager, NVM, 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 33.

Following the latest review by the committee, the board concluded that the continuing appointment of NVM was in the interests of the company and its shareholders as a whole. NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a consistent long-term performance record. NVM 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 2018 and the number attended by each director compared with the maximum possible attendance.

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.

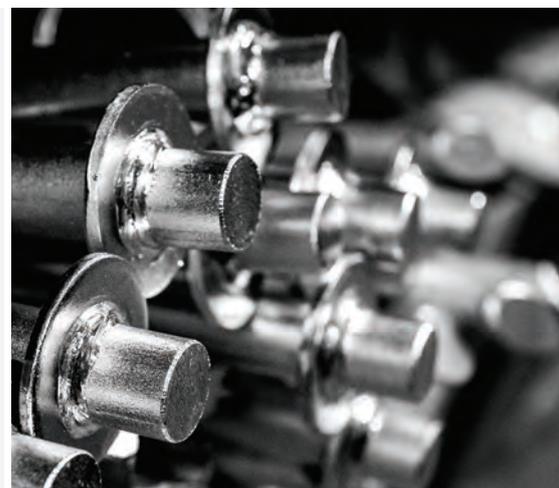
Investor relations

In fulfilment of the Chairman's obligations under the UK Corporate Governance Code, the Chairman 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 half-year and year-end stages, 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 NVM website at www.nvm.co.uk.

Table 1: Directors' attendance at meetings

	Board	Audit committee	Nomination committee	Management engagement committee
Number of meetings held	6	3	1	1
Attendance (actual/possible):				
J G D Ferguson (Chairman)	6/6	3/3	1/1	1/1
C J Fleetwood	6/6	3/3	1/1	1/1
T R Levett	6/6	N/A	1/1	N/A
J M O Waddell	6/6	3/3	1/1	1/1



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 NVM under the management agreement. NVM has established its own system of internal controls in relation to these matters, details of which have been reviewed by the audit committee.

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 "Internal Controls: Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout and subsequent to the accounting period under review.

Risk management

Risk management is discussed in the strategic report on pages 9 and 10.

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

As at 31 March 2018 89,662,373 ordinary shares were 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.

Corporate governance continued

A member may choose whether his 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 his 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 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 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 reappointed a director at any general meeting unless he 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 his 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 his 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 2017 annual general meeting to make market purchases of up to 6,975,680 ordinary shares at any time up to the 2018 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 4 July 2018 as set out in a separate circular.

By order of the Board

J K Bryce
Secretary

17 May 2018

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the 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 have elected 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 the 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
- prepare the financial statements on the going concern basis 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 the 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 comply 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 year ended 31 March 2018

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 directors' report and strategic report include a fair review of the development and performance of the business and the position of the company, 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

J K Bryce
Secretary

17 May 2018



Independent auditor's report

To the members of Northern 3 VCT PLC only

Opinions and conclusions arising from our audit

1. Our opinion is unmodified

We have audited the financial statements of Northern 3 VCT PLC ("the company") for the year ended 31 March 2018 which comprise the income statement, balance sheet, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 17 June 2003. The period of total uninterrupted engagement is for the 15 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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. We summarise below the key audit matter (unchanged from 2017) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in

forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of unquoted investments – (£46.6 million; 2017: £42.4 million) – Refer to page 21 (audit committee section of the corporate governance statement), page 32 (accounting policy) and pages 28 to 41 (financial disclosures).

The risk: Subjective valuation – 55% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments.

Our response: Our procedures included:

- Historical comparisons: Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations;
- Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected;
- Our valuations experience: Challenging the investment manager on key judgements affecting investee company valuations, such as the choice of earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable and we obtained an understanding of existing and prospective investee company cashflows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation;
- Assessing transparency: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Our results: We found the Company's valuation of unquoted investments to be acceptable (2017: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £843,950 (2017: £743,000), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £42,067 (2017: £37,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the head office of the manager, NVM Private Equity LLP, in Newcastle upon Tyne and KPMG LLP in Edinburgh.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1a to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 16 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the directors' report, page 16, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the statement of long-term viability of how they have assessed the prospects of the company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement on long-term viability. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements 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; or
- the section of the annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the corporate governance statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the company's qualification as a Venture Capital Trust under UK tax legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Philip Merchant
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

17 May 2018

Income statement

for the year ended 31 March 2018

	Notes	Year ended 31 March 2018			Year ended 31 March 2017		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	698	698	–	1,775	1,775
Movements in fair value of investments	8	–	(2,892)	(2,892)	–	7,785	7,785
		–	(2,194)	(2,194)	–	9,560	9,560
Income	2	2,436	–	2,436	2,626	–	2,626
Investment management fee	3	(384)	(1,150)	(1,534)	(354)	(1,951)	(2,305)
Other expenses	4	(335)	(11)	(346)	(306)	–	(306)
Return on ordinary activities before tax		1,717	(3,355)	(1,638)	1,966	7,609	9,575
Tax on return on ordinary activities	5	(209)	209	–	(274)	274	–
Return on ordinary activities after tax		1,508	(3,146)	(1,638)	1,692	7,883	9,575
Return per share	7	1.9p	(4.0p)	(2.1p)	2.6p	12.0p	14.6p
Dividends paid/proposed in respect of the year	6	1.5p	4.0p	5.5p	2.0p	8.5p	10.5p

- The total column of this 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 supplementary 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 November 2014 and updated in February 2018 with consequential amendments 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.
- The accompanying notes are an integral part of this statement.

Balance sheet

for the year ended 31 March 2018

	Notes	31 March 2018 £000	31 March 2017 £000
Fixed assets			
Investments	8	62,770	62,717
Current assets			
Debtors	12	167	652
Cash and cash equivalents		21,458	11,811
		21,625	12,463
Creditors (amounts falling due within one year)	13	(135)	(5,288)
Net current assets		21,490	7,175
Net assets		84,260	69,892
Capital and reserves			
Called-up equity share capital	14	4,483	3,290
Share premium	15	214	2,223
Capital redemption reserve	15	171	113
Capital reserve	15	69,721	50,850
Revaluation reserve	15	8,463	12,124
Revenue reserve	15	1,208	1,292
Total equity shareholders' funds		84,260	69,892
Net asset value per share	16	94.0p	106.2p

● The accompanying notes are an integral part of this statement.

The financial statements on pages 28 to 41 were approved by the directors on 17 May 2018 and are signed on their behalf by:

J G D Ferguson
Director

Statement of changes in equity

for the year ended 31 March 2018

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	
At 1 April 2017	3,290	2,223	113	12,124	50,850	1,292	69,892
Return on ordinary activities after tax	–	–	–	(3,661)	515	1,508	(1,638)
Dividends paid 6	–	–	–	–	(6,127)	(1,592)	(7,719)
Net proceeds of share issues 15	1,251	23,560	–	–	–	–	24,811
Shares purchased for cancellation 15	(58)	–	58	–	(1,086)	–	(1,086)
Cancellation of share premium reserve 15	–	(25,569)	–	–	25,569	–	–
At 31 March 2018	4,483	214	171	8,463	69,721	1,208	84,260
Year ended 31 March 2017							
Notes	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	Total £000
At 1 April 2016	3,277	1,348	76	6,899	54,452	912	66,964
Return on ordinary activities after tax	–	–	–	5,225	2,658	1,692	9,575
Dividends paid 6	–	–	–	–	(5,559)	(1,312)	(6,871)
Net proceeds of share issues 15	50	875	–	–	–	–	925
Shares purchased for cancellation 15	(37)	–	37	–	(701)	–	(701)
At 31 March 2017	3,290	2,223	113	12,124	50,850	1,292	69,892

● The accompanying notes are an integral part of this statement.

Statement of cash flows

for the year ended 31 March 2018

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Cash flows from operating activities		
Return on ordinary activities before tax	(1,638)	9,575
Gain on disposal of investments	(698)	(1,775)
Movements in fair value of investments	2,892	(7,785)
Decrease/(increase) in debtors	485	(400)
(Decrease)/increase in creditors	(872)	387
Net cash inflow from operating activities	169	2
Cash flows from investing activities		
Purchase of investments	(10,117)	(6,856)
Sale/repayment of investments	7,870	12,394
Net cash (outflow)/inflow from investing activities	(2,247)	5,538
Cash flows from financing activities		
Issue of ordinary shares	25,357	951
Share issue expenses	(546)	(26)
Share subscriptions held pending allotment	(4,281)	4,281
Purchase of ordinary shares for cancellation	(1,086)	(701)
Equity dividends paid	(7,719)	(6,871)
Net cash inflow/(outflow) from financing activities	11,725	(2,366)
Increase in cash and cash equivalents	9,647	3,174
Cash and cash equivalents at beginning of year	11,811	8,637
Cash and cash equivalents at end of year	21,458	11,811

Notes to the financial statements

for the year ended 31 March 2018

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 November 2014 and updated in February 2018 with consequential amendments by the Association of Investment Companies ("AIC SORP").

The company has adopted "Amendments to FRS 102 – Fair value hierarchy disclosures" issued by the Financial Reporting Council in March 2016.

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

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

(b) Valuation of investments

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

The company's investments have been designated by the directors as fair value through profit and loss at the time of acquisition and are measured at subsequent reporting dates at fair value. 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 the International Private Equity and Venture Capital Valuation guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary.

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.

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company's normal policy and are not equity accounted as required by the Companies Act 2006. The directors consider that, as these investments are held as part of the company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the company's interests in these investments. Quantification of the effect of this departure is not practicable. Carrying investments at fair value is specifically permitted under FRS 102 (Section 14.4B), where venture capital entities hold investments as part of a portfolio.

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed 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.

(d) 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 has been charged 100% to capital return.

(e) 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.

(f) 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.

(g) Dividends payable

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

(h) 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.

(i) Capital reserve

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; realised and unrealised exchange differences of a capital nature; 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.

(j) Revaluation reserve

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

(k) 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. The area involving a higher degree of judgement and estimates is the valuation of unquoted investments as explained in Note 1(b).

2. Income

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Investment income:		
Dividends from unquoted companies	14	18
Dividends from quoted companies	603	575
Property income distributions	9	–
Interest receivable:		
Bank deposits*	24	7
Loans to unquoted companies	1,786	2,026
	2,436	2,626

*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 2018			Year ended 31 March 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	384	1,150	1,534	354	1,062	1,416
Performance-related	–	–	–	–	889	889
	384	1,150	1,534	354	1,951	2,305

NVM Private Equity (NVM) provides investment management, secretarial and administrative services to the company under an agreement dated 24 September 2001, which may be terminated at any time by not less than twelve months' notice being given by either party.

NVM 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. NVM also provides administrative and secretarial services to the company for a fee of £54,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

NVM is also entitled to receive a performance-related management fee equivalent to 14.2% 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 7% on average long-term investments and the higher of the Bank of England base rate and 3% on average cash and near-cash investments during the year. The hurdle rate for the year ended 31 March 2018 was 5.7% (year ended 31 March 2017: 6.2%).

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 was no performance fee due in respect of the year to 31 March 2018 (2017: £889,000).

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

4. Other expenses

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Administrative and secretarial services	54	52
Directors' remuneration	65	58
Auditor's remuneration – audit services	20	19
– non-audit services	2	1
Legal and professional expenses	42	31
Share issue promoter's commission	41	45
Other expenses	122	100
	346	306

Information on directors' remuneration is given in the directors' remuneration report on pages 18 and 19.

Notes to the financial statements continued

for the year ended 31 March 2018

5. Tax on return on ordinary activities

	Year ended 31 March 2018			Year ended 31 March 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	209	(209)	–	274	(274)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	1,717	(3,355)	(1,638)	1,966	7,609	9,575
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 19.0% (2017 20.0%)	326	(637)	(311)	393	1,522	1,915
Effect of:						
Dividends not subject to tax	(117)	–	(117)	(119)	–	(119)
Capital returns not subject to tax	–	(133)	(133)	–	(355)	(355)
Movements in fair value of investments not subject to tax	–	550	550	–	(1,557)	(1,557)
Increase in surplus management expenses	–	11	11	–	116	116
Tax charge/(credit) for the year	209	(209)	–	274	(274)	–

(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 £2,559,000 (31 March 2017 £2,498,000), 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 2018			Year ended 31 March 2017		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second interim dividend	–	3,488	3,488	–	3,267	3,267
Previous year's final dividend	697	1,744	2,441	653	1,633	2,286
Current year's first interim dividend	895	895	1,790	659	659	1,318
	1,592	6,127	7,719	1,312	5,559	6,871
(b) Paid and proposed in respect of the year						
First interim paid – 2.0p (2017 2.0p) per share	895	895	1,790	659	659	1,318
Second interim declared – nil (2017 5.0p) per share	–	–	–	–	3,290	3,290
Final proposed – 3.5p (2017 3.5p) per share	448	2,690	3,138	658	1,645	2,303
	1,343	3,585	4,928	1,317	5,594	6,911

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 on ordinary activities after tax for the year of £1,638,000 (2017 £9,575,000) and on 77,868,025 (2017 65,796,762) shares, being the weighted average number of shares in issue during the year.

8. Investments

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

FRS 102 (including subsequent amendments issued in March 2016) 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 are unobservable (ie for which market data is unavailable) for the asset or liability.

	31 March 2018 £000	31 March 2017 £000
Level 1		
Quoted venture capital investments	9,324	11,840
Listed equity investments	6,874	8,448
Level 3		
Unquoted venture capital investments	46,572	42,429
	62,770	62,717

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	Total £000
Book cost at 1 April 2017	35,179	7,547	7,867	50,593
Fair value adjustment at 1 April 2017	7,250	4,293	581	12,124
Fair value at 1 April 2017	42,429	11,840	8,448	62,717
Movements in the year:				
Purchases at cost	9,592	226	299	10,117
Disposals – proceeds	(6,621)	(492)	(757)	(7,870)
– net realised gains on disposal	656	24	18	698
Movements in fair value	516	(2,274)	(1,134)	(2,892)
Fair value at 31 March 2018	46,572	9,324	6,874	62,770
Comprising:				
Book cost at 31 March 2018	39,910	7,215	7,182	54,307
Fair value adjustment at 31 March 2018	6,662	2,109	(308)	8,463
	46,572	9,324	6,874	62,770
Equity shares	21,181	9,324	6,874	37,379
Preference shares	1,935	–	–	1,935
Interest-bearing securities	23,456	–	–	23,456
	46,572	9,324	6,874	62,770

The gains and losses included in the table above have all been recognised in the income statement on page 28.

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. On that prudent basis the directors consider that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would be unlikely to increase or decrease the fair value of Level 3 investments by more than 5%, see note 17 for details of the impact this would have on the financial statements.

At 31 March 2018 there were no commitments (31 March 2017 none) in respect of investments approved by the manager but not yet completed.

Notes to the financial statements continued

for the year ended 31 March 2018

9. Investment disposals

Disposals of venture capital investments during the year were as follows:

	Original cost £000	Carrying value at 31 March 2017 £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Buoyant Upholstery – part redemption of loan stock	387	387	387	–
Gear4music (Holdings) – disposal of entire holding	42	162	211	49
Hayward Tyler – disposal of entire holding	515	306	281	(25)
Hunley – return of investment on liquidation	454	454	446	(8)
A J Way Group Holdings – loan stock redemption	664	166	664	498
Oceanos – return of investment on liquidation	454	454	446	(8)
Optilan Group – outright sale	1,125	2,751	2,751	–
Saluda – return of investment on liquidation	454	454	446	(8)
Seawise – return of investment on liquidation	454	454	446	(8)
Turbinia – return of investment on liquidation	454	454	446	(8)
Volumatic Holdings – loan stock redemption	345	345	345	–
Other disposals	72	46	244	198
	5,420	6,433	7,113	680

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2018 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 11, or in the corresponding table in the previous year's annual report, is regarded as material.

	Total cost £000	31 March 2018 Carrying value £000	Total cost £000	31 March 2017 Carrying value £000
No 1 Lounges				
Ordinary shares	157	1,386	157	1,920
Loan stock	1,591	1,591	1,591	1,591
	1,748	2,977	1,748	3,511
Lineup Systems				
Ordinary shares	174	2,110	174	1,670
Loan stock	800	800	800	800
	974	2,910	974	2,470
Entertainment Magpie Group				
Ordinary shares	152	1,402	152	3,412
Preference shares	250	251	250	288
Loan stock	958	958	958	958
	1,360	2,611	1,360	4,658
Sorted Holdings				
Ordinary shares	1,367	2,218	608	608
Loan stock	154	154	154	154
	1,521	2,372	762	762
Agilitas IT Holdings				
Ordinary shares	196	1,016	196	373
Loan stock	1,252	1,252	1,252	1,252
	1,448	2,268	1,448	1,625

10. Unquoted investments *continued*

	Total cost £000	31 March 2018 Carrying value £000	Total cost £000	31 March 2017 Carrying value £000
MSQ Partners Group				
Ordinary shares	182	930	182	1,332
Loan stock	1,296	1,296	1,296	1,296
	1,478	2,226	1,478	2,628
Love Saving Group				
Ordinary shares	179	1,251	179	179
Preference shares	120	120	120	120
Loan stock	718	718	718	718
	1,017	2,089	1,017	1,017
Closerstill Group				
Ordinary shares	1	466	1	1
Preference shares	291	291	291	291
Loan stock	1,228	1,228	1,228	1,228
	1,520	1,985	1,520	1,520
Buoyant Upholstery				
Ordinary shares	132	1,091	132	1,356
Loan stock	775	775	1,162	1,162
	907	1,866	1,294	2,518
Wear Inns				
Ordinary shares	205	–	205	–
Preference shares	88	435	88	435
Loan stock	1,113	1,154	1,113	1,154
	1,406	1,589	1,406	1,589
Biological Preparations Group				
Ordinary shares	195	–	195	–
Preference shares	308	167	308	–
Loan stock	1,412	1,412	1,412	1,412
	1,915	1,579	1,915	1,412
It's All Good				
Ordinary shares	115	430	115	640
Loan stock	1,016	1,016	1,016	1,016
	1,131	1,446	1,131	1,656
Volumatic Holdings				
Ordinary shares	216	408	216	299
Loan stock	1,035	1,035	1,379	1,379
	1,251	1,443	1,595	1,678
Medovate				
Ordinary shares	792	792	–	–
Loan stock	640	640	–	–
	1,432	1,432	–	–
Graza				
Ordinary shares	132	132	132	132
Preference shares	322	322	322	322
Loan stock	921	921	921	921
	1,375	1,375	1,375	1,375

Notes to the financial statements continued

for the year ended 31 March 2018

10. Unquoted investments *continued*

	Total cost £000	31 March 2018 Carrying value £000	Total cost £000	31 March 2017 Carrying value £000
Axial Systems Holdings				
Ordinary shares	219	–	219	389
Loan stock	1,074	1,074	1,074	1,074
	1,293	1,074	1,293	1,463
Optilan Group				
Ordinary shares	–	–	179	1,726
Loan stock	–	–	946	1,025
	–	–	1,125	2,751

Additional information relating to material investments in unquoted companies is given on pages 12 to 15.

11. Significant interests

Details of shareholdings in those companies where the company's holding at 31 March 2018 represents (1) more than 20% of the allotted equity share capital of any class, (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself, are given below. The company named is incorporated in England.

Company	Class of shares (nominal value £0.0001 unless stated)	Number held	Proportion of class held
Graza	Ordinary	131,243	29.1%

12. Debtors

	31 March 2018 £000	31 March 2017 £000
Prepayments and accrued income	167	652

13. Creditors (amounts falling due within one year)

	31 March 2018 £000	31 March 2017 £000
Accruals and deferred income	135	1,007
Share subscriptions held pending allotment	–	4,281
	135	5,288

14. Called-up equity share capital

	31 March 2018 £000	31 March 2017 £000
Allotted and fully paid: 89,662,373 (2017 65,797,970) ordinary shares of 5.0p	4,483	3,290

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 6. The company is not subject to externally imposed capital requirements.

During the year the company issued 25,029,403 ordinary shares of 5.0p for cash at an average premium of 96.3p per share. 1,165,000 shares were purchased for cancellation during the year at a cost of £1,086,000.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2017	2,223	113	50,850	12,124	1,292
Premium on issue of ordinary shares	24,106	-	-	-	-
Share issue expenses	(546)	-	-	-	-
Shares purchased for cancellation	-	58	(1,086)	-	-
Cancellation of the share premium reserve	(25,569)	-	25,569	-	-
Share premium reserve cancellation expenses	-	-	(11)	-	-
Realised on disposal of investments	-	-	698	-	-
Transfer on disposal of investments	-	-	769	(769)	-
Movements in fair value of investments	-	-	-	(2,892)	-
Management fee charged to capital net of associated tax	-	-	(941)	-	-
Revenue return on ordinary activities after tax	-	-	-	-	1,508
Dividends recognised in the year	-	-	(6,127)	-	(1,592)
At 31 March 2018	214	171	69,721	8,463	1,208

At 31 March 2018 distributable reserves amounted to £70,621,000 (31 March 2017 £52,723,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable equity investments.

On 18 September 2017 shareholders approved a special resolution to cancel the share premium account arising on the issue of new ordinary shares, including those shares to be issued in connection with the planned prospectus share offer also approved by shareholders on that date. Court consent to the cancellation was granted on 13 March 2018, and accordingly on that date the share premium account was cancelled and an equivalent sum was credited to the capital reserve (which is a distributable reserve).

16. Net asset value per share

The calculation of net asset value per share as at 31 March 2018 is based on net assets of £84,260,000 (2017 £69,892,000) divided by the 89,662,373 (2017 65,797,970) ordinary shares in issue at that date.

17. Financial instruments

The company's financial instruments comprise equity and interest-bearing 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, 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.

Notes to the financial statements continued

for the year ended 31 March 2018

17. Financial instruments *continued*

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 6. 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 20 to 24, 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 11. An analysis of investments between debt and equity instruments is given in Note 8.

19.2% (31 March 2017 29.0%) by value of the company's net assets comprises equity securities listed on regulated stock exchanges. A 5% increase in the bid price of these securities as at 31 March 2018 would have increased net assets and the total return for the year by £810,000 (31 March 2017 £1,014,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

55.3% (31 March 2017 60.7%) by value of the company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 5% increase in the value price of these securities as at 31 March 2018 would have increased net assets and the total return for the year by £2,329,000 (31 March 2017 £2,121,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

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:

	Total fixed rate portfolio £000	Weighted average interest rate %	31 March 2018 Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	31 March 2017 Weighted average period for which rate is fixed Years
Fixed-rate investments in unquoted companies	11,601	9.5%	2.9	9,145	9.5%	4.0

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the company's net assets or total return for the year.

(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 0.50% at 31 March 2018 (31 March 2017 0.25%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 0.72% at 31 March 2018 (31 March 2017 0.34%). It is considered that an increase or decrease of 25 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 2018 £000	31 March 2017 £000
Floating rate loans to unquoted companies	11,855	12,787
Interest-bearing deposit accounts	21,458	11,811
	33,313	24,598

17. Financial instruments *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.

At 31 March 2018 the company's financial assets exposed to credit risk comprised the following:

	31 March 2018 £000	31 March 2017 £000
Fixed-rate investments in unquoted companies	11,601	9,145
Floating rate loans to unquoted companies	11,855	12,787
Interest-bearing deposit accounts	21,458	11,811
Accrued dividends and interest receivable	152	635
	45,066	34,378

Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (nominee companies of Brewin Dolphin Limited or Speirs & Jeffrey 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 are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2018 or 31 March 2017.

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 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 2018 these investments were valued at £28,332,000 (31 March 2017 £20,259,000).

18. Contingencies

At 31 March 2018 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £80,000 (31 March 2017 £157,000). 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 2018 or 31 March 2017.

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