Northern Venture Trust PLC

Annual report and financial statements

30 September 2017

nvm private equity

Northern Venture Trust PLC is a Venture Capital Trust (VCT) whose investment adviser is NVM Private Equity LLP.

The trust was one of the first VCTs launched on the London Stock Exchange in 1995. It invests mainly in UK unquoted companies and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Contents

Financial summary

Year ended 30 September:	2017	2016
Net assets	**£76.3m**	£77.2m
Net asset value per share	**72.6p**	80.0p
Return per share after tax		
Revenue	**1.8p**	1.6p
Capital	**1.9p**	8.5p
Total	**3.7p**	10.1p
Dividend per share for the year		
First interim dividend	**3.0p**	3.0p
Second interim (special) dividend	**5.0p**	7.0p
Proposed final dividend	**3.0p**	3.0p
Total	**11.0p**	13.0p
Cumulative return to shareholders since launch		
Net asset value per share	**72.6p**	80.0p
Dividends paid per share*	**159.5p**	148.5p
Net asset value plus dividends paid per share	**232.1p**	228.5p
Mid-market share price at end of year	**71.0p**	70.0p
Tax-free dividend yield (based on mid-market share price at the end of the year)		
Excluding special dividend	**8.5%**	8.6%
Including special dividend	**15.5%**	18.6%

*Excluding proposed final dividend

Key dates

Results announced
14 November 2017

Shares quoted ex dividend
23 November 2017

Record date for final dividend
24 November 2017

Annual general meeting
19 December 2017, 11.30am
The Balmoral, 1 Princes Street, Edinburgh EH2 2EQ

Final dividend paid
22 December 2017

Chairman's statement

The past year has been another period of adapting as we refine our approach to investment activities under the current rules and assess the evolving political and economic landscapes.

Overview

The past year has been a busy one of consolidation as we continue to adapt to the new VCT rules, building the pipeline of opportunities in earlier stage companies. The companies exited during the year had already been marked up in value in previous years and so the surplus for the year to September 2017 was lower than the preceding year. However the strong inflow of cash enabled the board once again to declare a special dividend, this time of 5.0 pence per share paid in June. The pace of investment increased in the second half with four new VCT-qualifying investments being completed, in addition to the investment reported in the first half. Two share offers were launched successfully during the year and filled very quickly, so we start the new financial year in a position of considerable cash strength to support future investment activities.

Results and dividend

In the year ended 30 September 2017 the company achieved a return after tax of £3,675,000 (2016: £9,571,000), or 3.7 pence per share (2016: 10.1 pence), representing a total return of 4.6% over the opening net asset value (NAV) per share. The NAV per share at 30 September 2017, after deducting dividends paid during the year of 11.0 pence, was 72.6 pence compared with 80.0 pence as at 30 September 2016 as we continued to return cash to shareholders following the successful sale of investments.

An interim dividend of 3.0 pence per share was paid in June 2017, together with a special dividend of 5.0 pence in recognition of profitable investment realisations. As previously highlighted, the VCT rules allow only a relatively short six month period for re-investment of such receipts before they become non-qualifying if retained by the company. The directors propose a final dividend also of 3.0 pence per share, which will be paid on 22 December 2017 to shareholders on the register on 24 November 2017, taking the total dividend in respect of the year to 11.0 pence. This is the fourteenth consecutive year in which a dividend of at least 6.0 pence has been paid. A 6.0 pence dividend represents a tax-free yield of 8.5% on the mid-market share price of 71.0 pence at 30 September 2017.

Investment income was higher than in the prior year at £3.0 million (2016: £2.6 million), as a result of positive developments in a number of portfolio companies, which have enabled them to clear significant arrears of interest. Notwithstanding this one-off positive impact, we continue to expect a downward trend in investment income as the profile of the portfolio shifts towards earlier stage investments in response to the current VCT rules. This change in the portfolio may also make the flow of realised gains less predictable in the medium to long term and so future dividends are likely to be subject to fluctuation.

Investment portfolio

During the past year, five new VCT-qualifying investments have been completed at a total cost of £3.9 million; this demonstrates a lower average level of initial investment in portfolio companies than in the past as we expect to support them through various stages of growth in the future with further investments. Shareholders may recall that the current VCT rules, which were enacted two years ago, removed management buyout transactions from the permitted range of investment activities. Our focus has necessarily shifted to earlier stage companies requiring capital for the development of new products and markets. Our investment adviser, NVM, has continued to supplement its early stage investment capability and the flow of attractive opportunities meeting our criteria has been encouraging.

The cash proceeds from venture capital investments sold or repaid amounted to £15.4 million, representing a surplus of £4.0 million over original cost. The gain recognised during the year relating to the disposals was less significant at £1.6 million, owing to the progress made in several of these exit processes before the start of the year and gains therefore recorded in previous years. The resulting inflow of cash facilitated the declaration of the special dividend referred to above.

Simon Constantine *Chairman*

Share issues and buy-backs

In February 2017 we launched a top-up offer of new ordinary shares to raise up to £4.3 million, in conjunction with similar offers by Northern 2 VCT and Northern 3 VCT, which became fully subscribed within 48 hours. Having reviewed the forecast cash requirements for the forthcoming year and beyond, we also launched a full prospectus offer to raise up to £20.0 million in September 2017. The demand experienced was again strong and on 16 October 2017 we announced that the latest offer was also fully subscribed. Priority was given to existing shareholders for a three week period, during which time all applications received from existing shareholders were satisfied in full. With approximately 40% of the total gross subscription coming from new investors, we welcome almost 800 new shareholders to the register and I would like to record my sincere thanks to all applicants for the strong vote of confidence received. As a result, we are well positioned both to support existing early stage investee companies which may require further finance to thrive and to exploit new investment opportunities which meet our key criteria of growth potential, strong management and an ability to generate cash in the medium to long term.

Whilst we have maintained flexibility to buy back shares in the market at a 5% discount to NAV, the secondary market has met all selling demand in the year and consequently there were no buy-backs.

In addition to the public offers, 3,175,620 shares were issued during the year under our dividend investment scheme for consideration of £2.3 million, representing around one fifth of the total dividend payments during the year.

VCT qualifying status

The company has maintained its approved venture capital trust status with HM Revenue & Customs. The company's compliance with the VCT qualifying conditions is closely monitored by the board, who receive regular reports from NVM and from our VCT taxation advisers, Philip Hare & Associates LLP.

VCT legislation

The past two years have seen unprecedented change in the VCT industry. However I am encouraged that our investment rate in attractive opportunities has been maintained with 13 new investments completed under the new VCT rules, including two investments since the year-end. By way of a reminder, our portfolio of VCT-qualifying investments acquired before the changes were enacted is not affected by the new legislation, except to the extent that it is no longer possible for us to make follow-on investments in many of those companies.

More change may yet be on the horizon as the Government assesses the findings of its Patient Capital Review. The review was commissioned with a remit to identify barriers to access to long-term finance for growing firms in the UK and to assess what changes in government policy may be needed to improve the supply of funding. In conjunction with our investment adviser, we have welcomed the opportunity to consult on these important topics and to highlight the considerable support that the VCT industry provides to growing, innovative businesses.

We look forward to the Chancellor's Budget announcement on 22 November and to obtaining further clarity on the future legislative environment for our industry.

Annual general meeting

The 2017 annual general meeting will take place in Edinburgh on Tuesday 19 December 2017. Details of the formal business of the meeting are set out in a separate circular which is being sent to shareholders with the annual report. We look forward to meeting shareholders on that occasion.

Outlook

The past year has been another period of adapting as we refine our approach to investment activities under the current rules and assess the evolving political and economic landscapes, including Britain's future relationship with the EU. Whilst making definitive statements about what lies ahead is inherently difficult, we are confident in the resilience developed to deal with change and remain positive about the future.

Simon Constantine
Chairman 14 November 2017

Directors and advisers

Simon Constantine MA ACA (Chairman)

aged 58, has extensive business management experience at board level, particularly in the healthcare and life sciences sectors, and co-led the management buy-in and subsequent trade sale of Life Sciences International plc. He has served as a non-executive director of a number of venture capital and private equity-backed businesses and is currently chairman of Capstone Foster Care Limited and a non-executive director of Bioquell PLC and Oxford Photovoltaics Limited. He was appointed to the board in 2012 and became chairman in 2014.

Nigel Beer BA FCA

aged 63, was formerly London Head of Corporate Finance at KPMG and previously responsible for the software and technology sector within corporate finance, based in the Thames Valley. He has over 20 years' experience in corporate transactions and investments, followed by 10 years' experience as a non-executive director of asset management and investment businesses. He is a non-executive director and chairman of the audit committee of Community Health Partnerships Limited (CHP) which has substantial property investments in the primary health care sector. He was appointed to the board in 2009.

Richard Green BA FCA CF

aged 55, joined Kleinwort Benson Development Capital in 1988 and was a founder in 2001 of the spin-out business which became August Equity LLP, where he was managing partner until 2009 and then chairman until his retirement in 2014. His sector experience includes healthcare, technology, media, engineering and manufacturing. He is a past chairman of the British Private Equity & Venture Capital Association and is currently a non-executive director of AIM-quoted Qannas Investments Limited and Hydrogen Group plc, a member of the Advisory Board of Finance For Business North East and the non-executive chairman of Technology Venture Partners LLP. He was appointed to the board in 2014.

Tim Levett MBA

aged 68, is executive chairman of NVM Private Equity LLP, whose business he co-founded in 1988. He is a non-executive director of Northern 3 VCT PLC and several unquoted companies and is a member of the AIC's VCT Forum and the British Private Equity & Venture Capital Association's Venture Capital Committee. He was appointed to the board in 2013.

David Mayes

aged 53, is an experienced investment professional and investor with a long-standing involvement in financial markets. He previously managed an emerging markets investment team for Credit Suisse Securities (Europe) Limited. He is currently a trustee director of a major pension fund and vice chair of its investment committee, and is a non-executive director of an EIS-backed pub company and the Salvation Army International Trustee Company. He was appointed to the board in 2014.

Hugh Younger LLB

aged 59, is senior partner at Murray Beith Murray, a leading firm of solicitors based in Edinburgh. He has more than 30 years' experience of private client work and brings a perspective on matters relating to wealth management and asset protection. He was appointed to the board in 2009.

Secretary and registered office

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Shareholder helpline: 0800 028 2349

Shareholder information

The trust invests mainly in unquoted venture capital holdings.

The company

Northern Venture Trust PLC is a Venture Capital Trust (VCT) which has been listed on the London Stock Exchange since 1995. The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed interest-bearing and equity investments and bank deposits.

Northern Venture Trust is registered with the Financial Conduct Authority as a small Alternative Investment Fund Manager for the purposes of the Alternative Investment Fund Managers Directive. Investment advisory services are provided by NVM Private Equity LLP (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne, Reading and Manchester. NVM also acts as manager of three other listed investment companies, Northern Investors Company PLC, Northern 2 VCT PLC and Northern 3 VCT PLC, and three limited partnerships, NV1 LP, NV2 LP and NVM Private Equity Vintage III LP. NVM has over £300 million under management.

Northern Venture Trust 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 30% (70% for funds raised after 5 April 2011) must comprise eligible ordinary 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 only qualify for VCT investment if it has previously received State-aided risk finance in the past seven (or ten) years or the new investment exceeds 10% of the total turnover for the past five years and the funds are used for new products and/or geographical markets; there will be 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. The rules apply to qualifying and non-qualifying investments, and a breach of the requirements may lead to a loss of VCT status.

Financial calendar

The company's financial calendar for the year ending 30 September 2018 is as follows:

May 2018

Half-yearly financial report for six months ending 31 March 2018 published

June 2018

Interim dividend paid

November 2018

Final dividend and results for year ending 30 September 2018 announced; annual report and financial statements published

December 2018

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 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 and service businesses which meet the investment adviser's 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 legislation, 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 legislation, which is 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 will 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 new investee company on a predetermined basis.

Investment management

Northern Venture Trust is registered with the Financial Conduct Authority as a small Alternative Investment Fund Manager for the purposes of the Alternative Investment Fund Managers Directive. Investment advisory services are provided by NVM. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne, Reading and Manchester and currently has over £300 million under management.

The board's management engagement committee reviews the terms of NVM's appointment as investment adviser 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.

Table 1: Venture capital portfolio cash flow

Year ended 30 September	New investment £000	Disposal proceeds £000	Net inflow £000
2013	7,359	8,344	985
2014	10,374	11,099	725
2015	17,063	20,401	3,338
2016	6,158	11,062	4,904
2017	4,818	15,443	10,625
Total	**45,772**	**66,349**	**20,577**

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

	£000	Pence per ordinary share
Net asset value at 1 October 2016	77,200	80.0
Net revenue (investment income less revenue expenses and tax)	1,801	1.8
Capital surplus arising on investments:		
Realised net gains on disposals	1,651	1.6
Movements in fair value of investments	1,072	1.1
Management expenses allocated to capital account (net of tax relief)	(849)	(0.8)
Total return for the year as shown in the income statement	3,675	3.7
Proceeds of issues of new shares (net of expenses)	6,488	(0.1)
Shares re-purchased for cancellation	–	–
Net movement for the year before dividends	10,163	3.6
Net asset value at 30 September 2017 before dividends recognised	87,363	83.6
Dividends recognised in the financial statements for the year	(11,103)	(11.0)
Net asset value at 30 September 2017	**76,260**	**72.6**

Overview of the year

During the year under review Northern Venture Trust achieved a return to shareholders, before dividends, of 3.7 pence per share, equivalent to 4.6% of the opening net asset value per share of 80.0 pence.

The net cash inflow from the venture capital portfolio during the year was £10.6 million, comprising sales proceeds and repayments of £15.4 million less investments of £4.8 million. Portfolio cash flow over the past five years is set out in Table 1. The movement in total net assets and net asset value per share is summarised in Table 2. After taking account of other cash flows, including dividend payments of £11.1 million, the company's total cash and deposits increased over the year by £5.8 million to £10.0 million. The portfolio of listed interest-bearing and equity investments was valued at £11.6 million at 30 September 2017.

Dividends

The directors have declared dividends totalling 11.0 pence per share in respect of the year, comprising a 1.5 pence revenue dividend and a 9.5 pence capital dividend from realised investment gains.

Investment portfolio

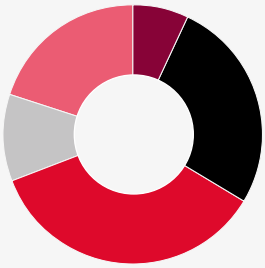
During the year ended 30 September 2017, five new holdings were added to the venture capital portfolio at a cost of £3.9 million, and additional investments totalling £0.9 million were made in existing portfolio companies. The portfolio at 30 September 2017 comprised 44 holdings with an aggregate value of £54.1 million. A summary of the venture capital holdings at 30 September 2017 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

New investments

The new investments completed during the year were:

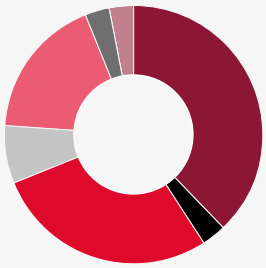
- **Intelling Group (£1,048,000)** – communications specialist providing customer support solutions, Manchester
- **Velocity Composites (£103,000)** – AIM-quoted manufacturer of material kits for aircraft production, Burnley
- **Knowledgemotion (£1,048,000)** – educational video aggregator and distributor, London
- **Contego Fraud Solutions (£519,000)** – identity verification system provider, Oxford
- **Volo Commerce (£1,173,000)** – enterprise resource planning platform supporting online merchants, London

In addition to new investments, a further £900,000 was invested in **Sorted Holdings**, an existing investee company, by way of a follow-on funding round.



Age of investment

Up to 1 year	7.2%
1-3 years	26.5%
3-5 years	35.5%
5-7 years	10.9%
Over 7 years	19.9%



Industry sector

IT services	37.9%
Construction	3.1%
Consumer	28.1%
Industrial	7.2%
Business services	17.6%
Healthcare/biotechnology	3.2%
Other	2.9%

Investment realisations

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

Cawood Scientific and **Optilan Group** were both the subjects of secondary buyout transactions funded by Inflexion Private Equity and Blue Water Energy respectively. **AJ Way** (previously Kirton) redeemed loan notes totalling £0.9m following the disposal of a significant trading division. A total of £7.9 million was returned upon the liquidation of five holding companies **Hunley**, **Oceanos**, **Saluda**, **Seawise** and **Turbinia**. In addition, £0.3m was received and recognised during the year in respect of deferred consideration from the sales of **Direct Valeting** and **Kitwave One** in previous periods.

In the AIM-quoted portfolio, the investment in **Gear4music (Holdings)** increased sharply in value and the entire holding was sold during the year for over three times the original cost.

Portfolio composition

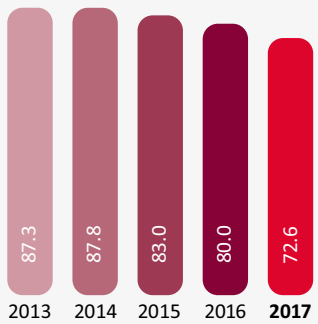
The pie charts above show the composition of the investment portfolio at 30 September 2017 by value according to age, industry sector, financing stage and whether quoted or unquoted. The management buyout investments were completed before updates to the VCT rules prohibiting this type of investment activity were enacted, in November 2015.

A number of companies in the portfolio have continued to be affected by external factors such as the uncertainty caused by the EU referendum result, however the portfolio has on the whole performed satisfactorily and this is reflected in the positive investment return achieved during the year. Our investment valuation policy remains cautious particularly where companies are performing behind expectations.

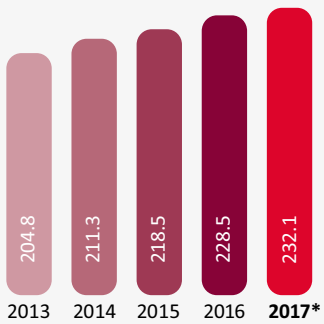
The portfolio of listed equity and interest-bearing investments has produced a satisfactory income yield and capital performance during the year.

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. As at 30 September 2017 the number of investments falling into each valuation category was as shown in Table 4.

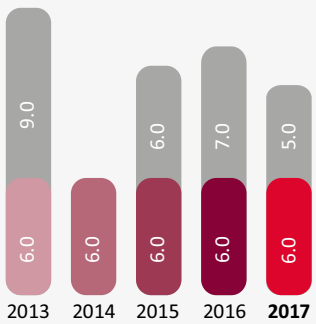


Net asset value (p)



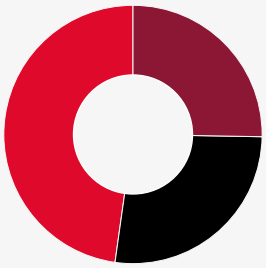
Net asset value plus cumulative dividends paid per share (p)

*excludes dividends declared but not yet paid



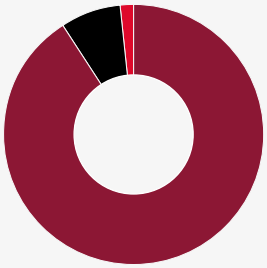
Dividend per share (p)

Special dividends



Financing stage

- Early stage 25.3%
- Expansion 27.1%
- MBO/MBI 47.6%



Quotation

- Unquoted 90.9%
- AIM 7.7%
- LSE 1.4%

Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Disposal proceeds £000	Realised surplus £000
AJ Way – redemption of loan notes	2013	859	859	–
Cawood Scientific – secondary buyout	2010	1,073	2,885	1,812
Gear4music (Holdings) – disposal of shares	2015	178	644	466
Hunley, Oceanos, Saluda, Seawise and Turbinia	2015	7,905	7,860	(45)
Optilan Group – secondary buyout	2008	1,000	2,196	1,196

Table 4: Venture capital investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings/revenue multiple	18	34,469	63.7
Price of latest funding round	2	3,267	6.0
Original cost	9	9,026	16.7
Original cost less provision	5	2,425	4.5
Quoted investments at bid price			
Listed on London Stock Exchange	1	750	1.4
Quoted on AIM	9	4,167	7.7
Total	**44**	**54,104**	**100.0**

Key performance indicators

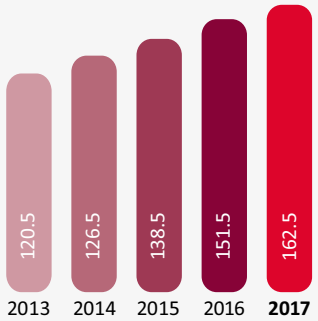
The directors regard the following as the key indicators pertaining to the company's performance:

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.

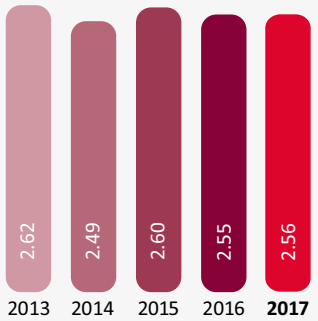
Dividend distributions: the charts at the bottom of this and the opposite page show the dividends (including proposed final dividends) declared in respect of each of the past five financial years and on a cumulative basis since inception.

Ongoing charges: the charts at the bottom of this page show total annual running expenses (including investment management fees charged to capital reserve) as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

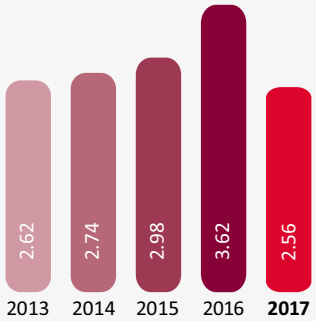
Maintenance of VCT qualifying status: the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.



Cumulative dividends per share (p)



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



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

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. ***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 investment adviser 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 take advantage of new unquoted investment opportunities. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. ***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 advisers 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 investment adviser 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 investment adviser. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: While it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment. ***Mitigation***: the investment adviser 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 administered investment company, the company is not directly responsible for any greenhouse gas emissions.

Future prospects

Good progress has been made to date with the transition in investment profile necessitated by the Government's changes to the VCT legislation and the past year has seen an encouraging level of activity in relation to new investments. The investment portfolio is in general making satisfactory progress, with a number of exit prospects.

By order of the Board

C D Mellor
Secretary

14 November 2017

Investment portfolio

as at 30 September 2017

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
No 1 Lounges	2,006	3,900	5.1
Entertainment Magpie Group	1,610	3,751	4.9
Buoyant Upholstery	1,674	3,263	4.3
Sorted Holdings	1,808	2,820	3.7
MSQ Partners Group	1,695	2,628	3.4
Lineup Systems	974	2,468	3.2
Biological Preparations Group	2,366	2,067	2.7
IDOX*	238	2,036	2.7
Agilitas IT Holdings	1,662	1,981	2.6
CloserStill Group	1,747	1,902	2.5
Wear Inns	1,640	1,854	2.4
It's All Good	1,205	1,751	2.3
Weldex (International) Offshore Holdings	3,262	1,670	2.2
Love Saving Group	1,204	1,656	2.2
Graza	1,581	1,581	2.1
	24,672	**35,328**	**46.3**
Other venture capital investments			
Volumatic Holdings	1,423	1,555	2.0
CGI Group Holdings	3,818	1,521	2.0
Intuitive Holding	1,674	1,500	2.0
Customs Connect Group	1,406	1,406	1.8
Volo Commerce	1,173	1,173	1.5
Knowledgemotion	1,048	1,048	1.4
Intelling Group	1,048	1,048	1.4
Rockar	874	874	1.1
Axial Systems Holdings	1,004	859	1.1
Vectura Group**	599	750	1.0
AVID Technology Group	715	715	1.0
Haystack Dryers	1,661	706	0.9
Lanner Group	523	699	0.9
Channel Mum	662	662	0.9
Nasstar*	323	597	0.8
Arnlea Holdings	1,305	585	0.8
Contego Fraud Solutions	519	519	0.7
Lending Works	746	447	0.6
Sinclair Pharma*	425	402	0.5
Brady*	386	379	0.5
Gentronix	678	339	0.4
Fresh Approach (UK) Holdings	1,475	239	0.3
Collagen Solutions*	321	218	0.3
RTC Group*	436	215	0.3
Ideagen*	89	210	0.3
Velocity Composites*	103	95	0.1
Summit Corporation*	195	15	–
S&P Coil Products	48	–	–
AJ Way	296	–	–
Total venture capital investments	**49,645**	**54,104**	**70.9**
Total listed equity investments	5,181	6,681	8.9
Total listed interest-bearing investments	4,901	4,914	6.4
Total fixed asset investments	**59,727**	**65,699**	**86.2**
Net current assets		10,561	13.8
Net assets		**76,260**	**100.0**

*Quoted on AIM

**Listed on London Stock Exchange

Fifteen largest venture capital investments

No 1 Lounges

Cost	£2,006,000
Valuation	£3,900,000
Basis of valuation	Earnings multiple
Equity held	9.0% (NVM funds total 38.7%)
Business/location	Operator of airport lounges and related services, London
History	Management buy-out financing in March 2014, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £210,000

Audited financial information:

Year ended 31 December	2016 £m	2015 £m
Sales	22.9	15.0
Operating profit/(loss)	1.0	(0.9)
Loss before tax	(0.1)	(1.9)
Profit/(loss) after tax	0.5	(1.9)
Net assets/(liabilities)	–	(0.3)

Entertainment Magpie Group

Cost	£1,610,000
Valuation	£3,751,000
Basis of valuation	Earnings multiple
Equity held	10.2% (NVM funds total 38.2%)
Business/location	Re-commerce website for pre-owned entertainment media and electronic items, Manchester
History	Management buy-out financing in September 2015, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £85,000

Audited financial information:

Period ended 31 May	2016* £m
Sales	52.6
Operating profit	1.3
Loss before tax	(0.2)
Loss after tax	(0.2)
Net assets	1.5

*8 month period

Buoyant Upholstery

Cost	£1,674,000
Valuation	£3,263,000
Basis of valuation	Earnings multiple
Equity held	15.3% (NVM funds total 64.8%)
Business/location	Manufacturer of upholstered furniture, Nelson
History	Management buy-out financing in July 2013, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £120,000

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

Sorted Holdings

Cost	£1,808,000
Valuation	£2,820,000
Basis of valuation	Price of latest funding round
Equity held	6.2% (NVM funds total 16.9%)
Business/location	Parcel delivery comparison website, Manchester
History	Development capital financing, May 2016, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
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.

MSQ Partners Group

Cost	£1,695,000
Valuation	£2,628,000
Basis of valuation	Earnings multiple
Equity held	8.3% (NVM funds total 38.7%)
Business/location	Marketing and communications agency group, London
History	Management buy-out financing in July 2014, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £149,000

Audited financial information:

Year ended 29 February	2016 £m	2015* £m
Sales	83.1	59.5
Operating profit	2.7	1.0
Profit/(loss) before tax	0.4	(0.7)
Profit/(loss) after tax	0.8	(1.3)
Net assets/(liabilities)	0.6	(0.5)

*7.5 month period

Lineup Systems

Cost	£974,000
Valuation	£2,468,000
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 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £37,000

Audited financial information:

Year ended 30 June	2016 £m	2015 £m
Sales	7.3	5.4
Operating profit	0.2	–
Profit/(loss) before tax	–	(0.1)
Profit/(loss) after tax	0.1	(0.1)
Net assets/(liabilities)	(0.2)	(0.3)

Biological Preparations Group

Cost	£2,366,000
Valuation	£2,067,000
Basis of valuation	Earnings multiple
Equity held	17.4% (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 in March 2015, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Dividends £22,000, loan stock interest £205,000

Audited financial information:

Year ended 30 June	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

IDOX

Cost	£238,000
Valuation	£2,036,000
Basis of valuation	Bid price (AIM)
Equity held	0.8% (NVM funds total 1.9%)
Business/location	Developer of software products for document, content and information management, London
History	Holding acquired through a share placing on AIM in 2007
Other NVM funds investing	Northern 3 VCT
Income in year	Dividends £33,000

Audited financial information:

Year ended 31 October	2016 £m	2015 £m
Sales	76.7	62.6
Operating profit	14.3	10.5
Profit before tax	13.0	9.8
Profit after tax	11.8	7.8
Net assets	65.2	53.6

Fifteen largest venture capital investments
continued

Agilitas IT Holdings

Cost	£1,662,000
Valuation	£1,981,000
Basis of valuation	Earnings multiple
Equity held	13.7% (NVM funds total 56.0%)
Business/location	Outsourced IT inventory management services, Nottingham
History	Management buy-out financing in June 2014, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £115,000

Audited financial information:

Year ended 31 March	2016 £m	2015 £m
Sales	7.2	5.8
Operating profit	0.6	0.3
Loss before tax	(0.2)	(0.4)
Loss after tax	(0.2)	(0.3)
Net assets	0.5	0.7

CloserStill Group

Cost	£1,747,000
Valuation	£1,902,000
Basis of valuation	Earnings multiple
Equity held	1.1% (NVM funds total 3.2%)
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 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £63,000

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

Wear Inns

Cost	£1,640,000
Valuation	£1,854,000
Basis of valuation	Earnings multiple
Equity held	8.0% (NVM funds total 23.9%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £140,000

Audited financial information:

Year ended 31 March	2016 £m	2015 £m
Sales	13.6	13.2
Operating profit	1.2	1.3
Loss before tax	(0.4)	(0.3)
Loss after tax	(0.5)	(0.3)
Net assets	3.9	4.6

It's All Good

Cost	£1,205,000
Valuation	£1,751,000
Basis of valuation	Earnings multiple
Equity held	10.4% (NVM funds total 30.2%)
Business/location	Manufacturer of premium savoury snack products, Gateshead
History	Growth capital investment in February 2014, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £108,000

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	1.0	0.7
Profit after tax	0.9	0.7
Net assets	1.3	0.4

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

Weldex (International) Offshore Holdings

Cost	£3,262,000
Valuation	£1,670,000
Basis of valuation	Earnings multiple
Equity held	5.0% (NVM funds total 10.0%)
Business/location	Hire of large crawler cranes to the construction industry, Inverness
History	Institutional buy-out in June 2010, led by Dunedin Capital Partners
Other NVM funds investing	Northern Investors Company
Income in year	Nil

Audited financial information:

Year ended 30 November	2016 £m	2015 £m
Sales	21.1	22.3
Operating profit	3.1	4.3
Loss before tax	(4.4)	(3.2)
Loss after tax	(4.8)	(2.1)
Net liabilities	(5.4)	(0.6)

Love Saving Group

Cost	£1,204,000
Valuation	£1,656,000
Basis of valuation	Earnings multiple
Equity held	9.6% (NVM funds total 35.9%)
Business/location	Business to business energy comparison and procurement, Bolton
History	Development capital financing, led by NVM, September 2015
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT, NV2 LP
Income in year	Nil

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

Graza

Cost	£1,581,000
Valuation	£1,581,000
Basis of valuation	Cost
Equity held	35.3% (NVM funds total 99.9%)
Business/location	Holding company, Newcastle upon Tyne
History	Investment in April 2015, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Nil

Audited financial information:

N/A

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 30 September 2017.

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 3090163.

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 return on ordinary activities after tax for the year of £3,675,000 has been transferred to reserves.

The final dividend of 3.0p per share in respect of the year ended 30 September 2016 and interim dividends totalling 8.0p per share in respect of the year ended 30 September 2017 were paid during the year at a cost of £11,103,000 and have been charged to reserves.

The proposed final dividend of 3.0p per share for the year ended 30 September 2017 will, if approved by shareholders at the annual general meeting, be paid on 22 December 2017 to shareholders on the register on 24 November 2017.

Provision of information to 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 ought 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

As required by the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three year period to September 2020, taking into account the company's current position and principal risks, and have concluded that there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over that period. 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. In making their assessment the directors have taken into account the principal risks and their mitigation identified in the strategic report on page 10, 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 cash outflows.

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 to the company since incorporation. The principal terms of the company's management and investment advisory agreement with NVM are set out in Note 3 to the financial statements. Mr T R Levett, who is a director of Northern Venture Trust, 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 adviser 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 Venture Trust comprises the following:

Remuneration payable by Northern Venture Trust

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. In the year ended 30 September 2017 the basic annual management fee was £1,629,000 (preceding year: £1,614,000).



Performance-related management fee: NVM is entitled to receive an annual performance-related management fee equivalent to 15.0% 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 30 September 2017 was 6.0% (preceding year: 6.0%). The performance-related fee for the year ended 30 September 2017 was nil (preceding year: £844,000).

Accounting and secretarial fee: NVM provides accounting, administrative and secretarial services to the company for a fee of £69,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £66,000.

The total remuneration payable to NVM by Northern Venture Trust in respect of the year, comprising the basic and performance-related management fees and the accounting and secretarial fee, was £1,698,000 (preceding year: £2,524,000).

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 30 September 2017 were equivalent to 2.56% of average net assets (preceding year: 2.55%).

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 30 September 2017 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern Venture Trust amounted to £138,000 (preceding year: £162,000), and directors' and monitoring fees amounted to £303,000 (preceding year: £287,000).

Executive co-investment scheme

Since 2006 the company has, together with 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, any prior ranking loan notes or preference shares held by the funds having been repaid. The executives participating in the scheme subscribe jointly for 5.0% of the ordinary shares available to the NVM funds, except in the case of ungeared investments comprising only ordinary shares, where the proportion is 1.0%. At 30 September 2017 NVM executives held investments in 36 investee companies acquired at a total cost of £847,000, of which £259,000 was attributable to investments made by Northern Venture Trust. The directors estimate that in the year ended 30 September 2017, the effect of the co-investment scheme on the company's performance was to increase the return on ordinary activities attributable to shareholders by £12,000 (2016: decrease of £522,000). The increase in return is equivalent to less than 0.1 pence per share (2016: decrease of 0.5p), based on the weighted average number of shares in issue during the year.

Share capital – purchase of shares

There were no purchases of shares for cancellation during the year. At the 2016 annual general meeting held in December 2016 shareholders authorised the company to purchase in the market up to 9,644,097 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 25p 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 30 September 2017 this authority remained effective in respect of 9,644,097 shares; the authority will lapse at the conclusion of the annual general meeting of the company on 19 December 2017.

Share capital – issue of shares

During the year the company issued a total of 8,585,177 new ordinary shares. 3,175,620 new ordinary shares were issued pursuant to the company's dividend investment scheme, for a gross cash consideration of £2,303,000. 5,409,557 new ordinary shares were issued as a result of a top-up share offer held in February 2017, for a gross cash consideration of 4,289,000.

A prospectus share offer was launched in September 2017, which was fully subscribed subsequent to the year end, resulting in 26,967,190 new ordinary shares being issued on 3 November 2017 for a gross cash consideration of £20,000,000.

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 annual general meeting to be held on 19 December 2017 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 directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

C D Mellor
Secretary

14 November 2017

Directors' remuneration report

The board currently comprises six 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. A resolution to approve the directors' remuneration report will be proposed at the annual general meeting on 19 December 2017.

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 board currently comprises six 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, comprising Mr S J Constantine (Chairman), Mr N J Beer, Mr R J Green, Mr T R Levett, Mr D A Mayes and Mr H P Younger, 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 Private Equity, 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 £150,000 per annum) on directors' remuneration. The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and that any director who was not appointed or re-appointed at one of the preceding two annual general meetings shall retire and be subject to re-election at each annual general meeting. 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 30 September 2017 (audited information)

The fees paid to individual directors in respect of the years ended 30 September 2017 and 30 September 2016, 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 and 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 30 September 2017 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 15 December 2016 the resolution to approve the directors' remuneration report for the year ended 30 September 2016 was approved by a show of hands. 98.8% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the chairman of the nomination committee

In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 8 November 2017, when it was recommended that fees should be increased to £35,000 per annum for the chairman of the board, £27,000 for the chairman of the audit committee and £25,000 per annum for other directors, with effect from 1 October 2017. With the exception of Mr N J Beer as chairman of the audit committee, the directors last received an increase in fees four years ago in October 2013 (and before then in October 2010). Since then, there have been considerable changes to the VCT legislation and the volume of investment activity of the company. Accordingly, it was recommended that their remuneration should be increased as detailed above.

S J Constantine
Chairman of
the Nomination
Committee

14 November 2017

Table 1: Directors' fees

	Year ended 30 September 2017	Year ended 30 September 2016
S J Constantine (Chairman)	30,000	30,000
N J Beer	24,000	22,000
R J Green	22,000	22,000
T R Levett*	–	–
D A Mayes	22,000	22,000
H P Younger	22,000	22,000
Total	**120,000**	**118,000**

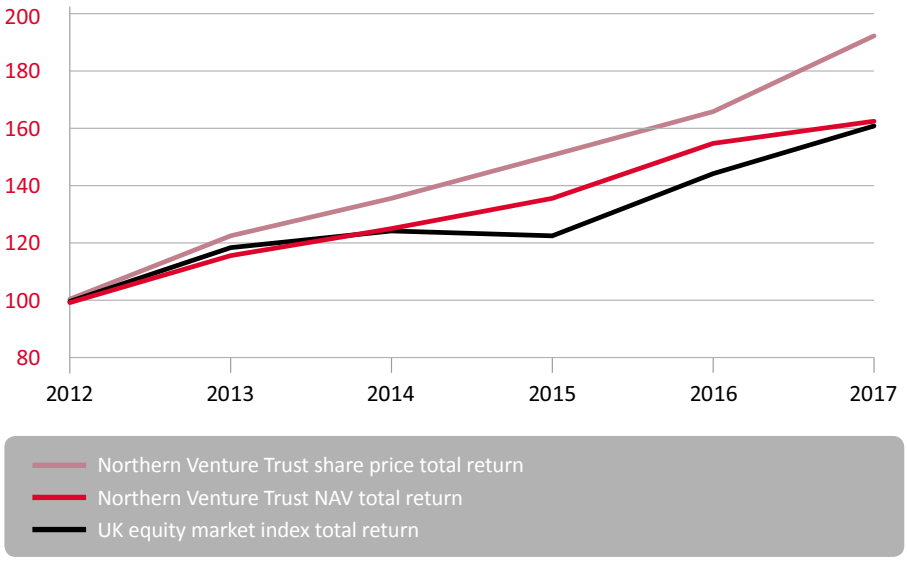
*Mr T R Levett waived his entitlement to directors' fees in respect of both years.

Table 2: Directors' interests in ordinary shares

	14 November 2017	30 September 2017	1 October 2016
S J Constantine (Chairman)	297,197	243,203	211,082
N J Beer	192,631	192,631	166,656
R J Green	77,493	10,000	–
T R Levett	410,164	410,164	410,164
D A Mayes	361,795	91,134	91,134
H P Younger	119,746	52,253	46,968

Return to shareholders in Northern Venture Trust PLC

Five years to 30 September 2017 (September 2012 = 100)



Corporate governance

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

The board of Northern Venture Trust 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 30 September 2017 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 Venture Trust PLC, which is an externally administered venture capital trust. The company has therefore not reported further in respect of these provisions.

Board of directors

The company has a board of six non-executive directors, the majority of whom are considered to be independent of the company's investment adviser, NVM. The board meets regularly in person or by conference call six times each year, and on other occasions as required. The board is responsible to shareholders for the effective stewardship of the company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

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

A brief biographical summary of each director is given on page 4.

The chairman, Mr S J Constantine, 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 N J Beer.

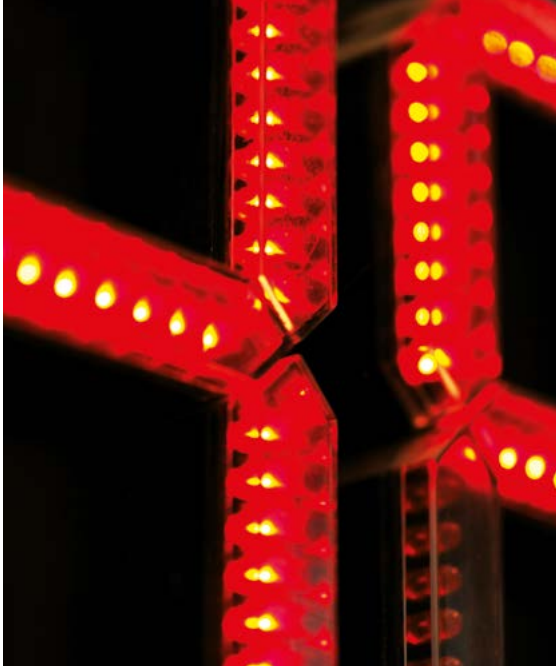
The company secretary, Mr C D Mellor, is responsible for advising the board through the chairman on all governance matters. All of the directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings of the board and its committees. Directors 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 adviser).



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 duties effectively and from an independent perspective; the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. However the board has as a matter of good practice adopted the AIC Code recommendation that directors who have served for more than nine years should seek annual re-election, and acknowledges that regular refreshment of its membership is desirable.

Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas. The board does not have a separate remuneration committee, as the company has no employees or executive directors. Detailed information relating to the remuneration of directors is given in the directors' remuneration report on pages 18 and 19.

Audit Committee

During the year the audit committee comprised:

Mr N J Beer (Chairman)
Mr S J Constantine
Mr R J Green
Mr D A Mayes
Mr H P Younger

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 approving new engagements; and
- ensuring that the investment adviser 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 five 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 30 September 2017 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;
- 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, half-yearly results statement and quarterly NAV announcements prior to board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the committee on the annual financial statements; 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 adviser and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments: the investment adviser confirmed to the audit committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The audit committee reviewed the estimates and judgements used in the investment valuations and was satisfied that they are appropriate.

Venture capital trust status: the investment adviser 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 reviewed by Philip Hare & Associates LLP in its capacity as adviser to the company on taxation matters.

The investment adviser and auditor confirmed to the audit committee that they were not aware of any material misstatements. Having reviewed the reports received from the adviser 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 applicable auditing standards. KPMG LLP together with its predecessor has held office as auditor for 22 years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner has served for three years. As part of its review, the committee considers the nature and extent of services supplied by the auditor. The non-audit services contracted for during the year were tax compliance services (iXBRL tagging). 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. The audit committee also considers the requirements and deadlines for mandatory audit tendering and rotation, as stipulated by relevant legislation.

Having completed its review the audit committee is satisfied that KPMG LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. The audit committee is satisfied that KPMG LLP is independent and that it would not be appropriate to put the audit appointment out to tender at the present time.

Nomination Committee

During the year the nomination committee comprised:

Mr S J Constantine (Chairman)
Mr N J Beer
Mr R J Green
Mr T R Levett
Mr D A Mayes
Mr H P Younger

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 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; the use of formal advertisements and external consultants is not considered cost-effective given the company's size. New directors are provided with briefing material relating to the company, its investment managers 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 R J Green (Chairman from 14 July 2017)
Mr N J Beer
Mr S J Constantine (Chairman until 14 July 2017)
Mr D A Mayes
Mr H P Younger

The management engagement committee undertakes a periodic review of the performance of the investment adviser, 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 formal board and committee meetings held during the year ended 30 September 2017 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 via its investment adviser's involvement 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 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 adviser on matters relating to the company's operation and performance. 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	7*	6	1	1
Attendance (actual/possible):				
S J Constantine (Chairman)	7/7	6/6	1/1	1/1
N J Beer	7/7	6/6	1/1	1/1
R J Green	7/7	6/6	1/1	1/1
T R Levett	7/7	N/A	1/1	N/A
D A Mayes	7/7	6/6	1/1	1/1
H P Younger	7/7	6/6	1/1	1/1

*In addition to the seven meetings of the board held in person during the year, there were a further 12 meetings held by conference call.

Internal control

The directors have overall responsibility for ensuring that there are in place 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 adviser. 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 adviser 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 page 10.

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

As at 30 September 2017 105,026,156 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.

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 or she is recommended by the directors or, not less than seven nor 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 or her 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 or her 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 2016 annual general meeting to make market purchases of up to 9,644,047 ordinary shares at any time up to the 2017 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 19 December 2017 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary

14 November 2017

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 the profit or loss of the company for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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 30 September 2017

We confirm that to the best of our knowledge:

- taken as a whole, the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

We consider 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.

By order of the Board

C D Mellor
Secretary

14 November 2017

Independent auditor's report to the members of Northern Venture Trust PLC

1. Our opinion is unmodified

We have audited the financial statements of Northern Venture Trust ("the Company") for the year ended 30 September 2017 which comprise the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the 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 30 September 2017 and of its profit 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 1 October 1995. The period of total uninterrupted engagement is for the 22 financial years ended 30 September 2017. 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 judgement, 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 matters (unchanged from 2016), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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.

Carrying amount of unquoted equity investments £49.2m (2016: £57.1m)

The Risk: 64% (2016: 78%) 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:

Control design: Documenting and assessing the design and implementation of the investment valuation processes and controls;

Control observation: Attending the year-end audit committee meeting where we assessed the effectiveness of the audit committee's challenge and approval of unlisted investment valuations;

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 adviser on key judgements affecting investee company valuations, such as discount factors and the choice of benchmark for 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 cash flows 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 resulting carrying amount of unquoted equity investments to be 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 £0.8m (2016: £0.8m) determined with reference to a benchmark of total assets, of which, it represents 1% (2016: 1%).

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding £38,000 (2016: £39,000), 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 all performed at the head office of the investment advisor, NVM Private Equity LLP, in Newcastle upon Tyne.

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 1(a) 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
- 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 statement on long-term viability on 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 on 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; and
- 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, other irregularities, 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. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

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

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
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

14 November 2017

Income statement

for the year ended 30 September 2017

	Notes	Year ended 30 September 2017 Revenue £000	Capital £000	Total £000	Year ended 30 September 2016 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	1,651	1,651	–	2,398	2,398
Movements in fair value of investments	8	–	1,072	1,072	–	7,458	7,458
		–	2,723	2,723	–	9,856	9,856
Income	2	2,989	–	2,989	2,570	–	2,570
Investment management fee	3	(407)	(1,222)	(1,629)	(404)	(2,054)	(2,458)
Other expenses	4	(408)	–	(408)	(397)	–	(397)
Return on ordinary activities before tax		2,174	1,501	3,675	1,769	7,802	9,571
Tax on return on ordinary activities	5	(373)	373	–	(240)	240	–
Return on ordinary activities after tax		1,801	1,874	3,675	1,529	8,042	9,571
Return per share	7	1.8p	1.9p	3.7p	1.6p	8.5p	10.1p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by The Association of Investment Companies, as set out in the accounting policies note.
- 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 30 September 2017

	Notes	30 September 2017 £000	30 September 2016 £000
Fixed assets			
Investments	8	65,699	73,572
Current assets			
Debtors	12	661	369
Cash and deposits		9,981	4,206
		10,642	4,575
Creditors (amounts falling due within one year)	13	(81)	(947)
Net current assets		10,561	3,628
Net assets		76,260	77,200
Capital and reserves			
Called-up equity share capital	14	26,256	24,110
Share premium	15	6,941	2,599
Capital redemption reserve	15	544	544
Capital reserve	15	34,150	40,514
Revaluation reserve	15	5,972	7,360
Revenue reserve	15	2,397	2,073
Total equity shareholders' funds		76,260	77,200
Net asset value per share	16	72.6p	80.0p

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

The financial statements on pages 28 to 41 were approved by the directors on 14 November 2017 and are signed on their behalf by:

S J Constantine
Director

N J Beer
Director

Statement of changes in equity

for the year ended 30 September 2017

	Notes	Non-distributable reserves				Distributable reserves		Total
		Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
At 1 October 2016		24,110	2,599	544	7,360	40,514	2,073	77,200
Return on ordinary activities after tax		–	–	–	(1,388)	3,262	1,801	3,675
Dividends paid	6	–	–	–	–	(9,626)	(1,477)	(11,103)
Net proceeds of share issues	14	2,146	4,342	–	–	–	–	6,488
Shares purchased for cancellation	14	–	–	–	–	–	–	–
At 30 September 2017		26,256	6,941	544	5,972	34,150	2,397	76,260

Year ended 30 September 2016	Non-distributable reserves				Distributable reserves		Total
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
At 1 October 2015	23,775	1,359	228	3,367	47,787	2,432	78,948
Return on ordinary activities after tax	–	–	–	3,993	4,049	1,529	9,571
Dividends paid	–	–	–	–	(10,354)	(1,888)	(12,242)
Net proceeds of share issues	651	1,240	–	–	–	–	1,891
Shares purchased for cancellation	(316)	–	316	–	(968)	–	(968)
At 30 September 2016	24,110	2,599	544	7,360	40,514	2,073	77,200

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

Statement of cash flows

for the year ended 30 September 2017

	Year ended 30 September 2017 £000	Year ended 30 September 2016 £000
Cash flows from operating activities		
Return on ordinary activities before tax	3,675	9,571
Gain on disposal of investments	(1,651)	(2,398)
Movements in fair value of investments	(1,072)	(7,458)
Increase in debtors	(292)	(29)
(Decrease)/increase in creditors	(866)	495
Net cash (outflow)/inflow from operating activities	(206)	181
Cash flows from investing activities		
Purchase of investments	(6,458)	(10,471)
Sale/repayment of investments	17,054	19,397
Net cash inflow from investing activities	10,596	8,926
Cash flows from financing activities		
Issue of ordinary shares	6,592	1,899
Share issue expenses	(104)	(8)
Purchase of ordinary shares for cancellation	–	(968)
Equity dividends paid	(11,103)	(12,242)
Net cash outflow from financing activities	(4,615)	(11,319)
Increase/(decrease) in cash and cash equivalents	5,775	(2,212)
Cash and cash equivalents at beginning of year	4,206	6,418
Cash and cash equivalents at end of year	9,981	4,206

Notes to the financial statements

for the year ended 30 September 2017

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 January 2017 with consequential amendments by the Association of Investment Companies ("AIC SORP").

The company has early 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 is 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 30 September 2017 £000	Year ended 30 September 2016 £000
Investment income:		
Dividends from unquoted companies	22	259
Dividends from quoted companies	235	309
Interest receivable:		
Bank deposits*	13	32
Loans to unquoted companies	2,574	1,738
Listed fixed-interest investments	145	232
	2,989	2,570

*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 30 September 2017			Year ended 30 September 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	407	1,222	1,629	404	1,210	1,614
Performance-related	–	–	–	–	844	844
	407	1,222	1,629	404	2,054	2,458

NVM Private Equity (NVM) provides investment advisory, secretarial and administrative services to the company under an agreement which may be terminated at any time by not less than twelve months' notice being given by either party. NVM receives a management fee, payable quarterly in advance, at the rate of 2.06% of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September. NVM also provides administrative and secretarial services to the company for a fee of £69,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4). NVM pays the fees of Speirs & Jeffrey Limited for managing the listed interest-bearing and equity portfolios.

NVM is also entitled to receive a performance-related management fee, which is payable only when the total return per share (defined as the movement in net asset value plus dividends paid) for the year, expressed as a percentage of the opening net asset value per share, exceeds a specified hurdle. The hurdle is a composite rate based on (a) 7% on average long-term investments and (b) the higher of (i) base rate and (ii) 3% on average cash and near-cash investments during the year. That part of the company's investments to which the "higher of base rate and 3%" hurdle applies is restricted to a maximum of 25% of total investments, so that any excess of cash or near-cash over 25% of total investments will be subject to the higher hurdle of 7%. The hurdle rate for the year ended 30 September 2017 was 6.0% (year ended 30 September 2016: 6.0%).

The performance fee in each financial year is equivalent to 15% of the amount by which the total return per share exceeds the hurdle, multiplied by the weighted average number of shares in issue. Following a period in which total return is negative, a high water mark will apply to the calculation of the performance fee such that an amount equivalent to the negative return will be deducted from subsequent years' total returns prior to any further performance fee calculation taking place. The performance fee is capped at 2.25% of opening net asset value for the relevant financial year. There was no performance fee due in respect of the year ended 30 September 2017 (2016: £844,000).

The total running costs of the company for each financial year, excluding performance fees, 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 management fees.

4. Other expenses

	Year ended 30 September 2017 £000	Year ended 30 September 2016 £000
Administrative and secretarial services	67	66
Directors' remuneration	120	118
Auditor's remuneration – audit services	20	19
– non-audit services	2	2
Legal and professional expenses	14	29
Share issue promoter's commission	34	24
Irrecoverable VAT	22	26
Other expenses	129	113
	408	397

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

5. Tax on return on ordinary activities

	Year ended 30 September 2017			Year ended 30 September 2016		
	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	373	(373)	–	240	(240)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	2,174	1,501	3,675	1,769	7,802	9,571
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 19.5% (2016 20.0%)	424	293	717	353	1,561	1,914
Effect of:						
UK dividends not subject to tax	(51)	–	(51)	(113)	–	(113)
Capital returns not subject to tax	–	(322)	(322)	–	(480)	(480)
Movements in fair value of investments not subject to tax	–	(209)	(209)	–	(1,492)	(1,492)
(Decrease)/increase in surplus management expenses	–	(135)	(135)	–	171	171
Tax charge/(credit) for the year	373	(373)	–	240	(240)	–

(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 £185,000 (30 September 2016 £879,000), 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 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 30 September 2017			Year ended 30 September 2016		
	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 final dividend	964	1,929	2,893	948	1,896	2,844
Current year's first interim dividend	513	2,565	3,078	940	1,879	2,819
Current year's second interim dividend	–	5,132	5,132	–	6,579	6,579
	1,477	9,626	11,103	1,888	10,354	12,242
(b) Paid and proposed in respect of the year						
First interim paid – 3.0p (2016 3.0p) per share	513	2,565	3,078	940	1,879	2,819
Second interim paid – 5.0p (2016 7.0p) per share	–	5,132	5,132	–	6,579	6,579
Final proposed – 3.0p (2016 3.0p) per share	1,320	2,640	3,960	964	1,929	2,893
	1,833	10,337	12,170	1,904	10,387	12,291

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 return on ordinary activities after tax for the year of £3,675,000 (2016 £9,571,000) and on 100,330,704 (2016 95,009,513) shares, being the weighted average number of shares in issue during the year.

8. Fixed asset 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 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 company has early adopted "Amendments to FRS 102 – Fair value hierarchy disclosures" issued by the Financial Reporting Council in March 2016. The fair value hierarchy shall have the following classifications:

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

	30 September 2017 £000	30 September 2016 £000
Level 1		
Quoted venture capital investments	4,917	5,782
Listed equity investments	6,681	6,336
Level 2		
Listed interest-bearing investments	4,914	4,346
Level 3		
Unquoted venture capital investments	49,187	57,108
	65,699	73,572

Movements in investments during the year are summarised as follows:

	Venture capital – unquoted Level 3 £000	Venture capital – quoted Level 1 £000	Listed equity Level 1 £000	Listed interest -bearing Level 2 £000	Total £000
Book cost at 1 October 2016	53,047	3,221	5,638	4,306	66,212
Fair value adjustment at 1 October 2016	4,061	2,561	698	40	7,360
Fair value at 1 October 2016	57,108	5,782	6,336	4,346	73,572
Movements in the year:					
Purchases at cost	4,715	103	594	1,046	6,458
Disposals – proceeds	(14,507)	(936)	(1,158)	(453)	(17,054)
– net realised gains/(losses) on disposal	1,292	317	51	(9)	1,651
Movements in fair value	579	(349)	858	(16)	1,072
Fair value at 30 September 2017	49,187	4,917	6,681	4,914	65,699
Comprising:					
Book cost at 30 September 2017	46,530	3,115	5,181	4,901	59,727
Fair value adjustment at 30 September 2017	2,657	1,802	1,500	13	5,972
	49,187	4,917	6,681	4,914	65,699
Equity shares	19,341	4,917	6,681	–	30,939
Preference shares	2,305	–	–	–	2,305
Interest-bearing securities	27,541	–	–	4,914	32,455
	49,187	4,917	6,681	4,914	65,699

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 30 September 2017 and 30 September 2016 there were no commitments in respect of investments approved by the board but not yet completed.

9. Investment disposals

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

	Original cost £000	Directors' valuation at 30 September 2016 £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
AJ Way – loan note redemption	859	215	859	644
Cawood Scientific – outright sale	1,073	2,519	2,885	366
Gear4music (Holdings) – disposal of entire holding	178	334	644	310
Hunley – return of investment on liquidation	1,581	1,581	1,572	(9)
IDOX – part disposal of holding	32	285	292	7
Kitwave One – deferred proceeds	–	–	242	242
Oceanos – return of investment on liquidation	1,581	1,581	1,572	(9)
Optilan Group – outright sale	1,000	2,183	2,196	13
Saluda – return of investment on liquidation	1,581	1,581	1,572	(9)
Seawise – return of investment on liquidation	1,581	1,581	1,572	(9)
Turbinia – return of investment on liquidation	1,581	1,581	1,572	(9)
Volumatic Holdings – loan note redemption	339	339	339	–
Others	56	56	127	71
	11,442	13,836	15,444	1,608

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 30 September 2017 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on pages 12 to 15, or in the corresponding table in the previous year's annual report, is regarded as material.

	30 September 2017 Total cost £000	30 September 2017 Carrying value £000	30 September 2016 Total cost £000	30 September 2016 Carrying value £000
No 1 Lounges				
Ordinary shares	181	2,075	181	1,386
Loan stock	1,825	1,825	1,825	1,825
	2,006	3,900	2,006	3,211
Entertainment Magpie Group				
Ordinary shares	179	2,320	179	4,040
Preference shares	297	297	297	341
Loan stock	1,134	1,134	1,134	1,134
	1,610	3,751	1,610	5,515
Buoyant Upholstery				
Ordinary shares	170	1,759	170	1,861
Loan stock	1,504	1,504	1,504	1,504
	1,674	3,263	1,674	3,365
Sorted Holdings				
Ordinary shares	1,626	2,638	723	723
Loan stock	182	182	182	182
	1,808	2,820	905	905
MSQ Partners Group				
Ordinary shares	208	1,141	208	1,091
Loan stock	1,487	1,487	1,487	1,487
	1,695	2,628	1,695	2,578
Lineup Systems				
Ordinary shares	174	1,668	174	1,668
Loan stock	800	800	800	800
	974	2,468	974	2,468

10. Unquoted investments *continued*

	30 September 2017 Total cost £000	30 September 2017 Carrying value £000	30 September 2016 Total cost £000	30 September 2016 Carrying value £000
Biological Preparations Group				
Ordinary shares	241	–	241	–
Preference shares	366	308	366	–
Loan stock	1,759	1,759	1,759	1,759
	2,366	2,067	2,366	1,759
Agilitas IT Holdings				
Ordinary shares	224	543	224	193
Loan stock	1,438	1,438	1,438	1,438
	1,662	1,981	1,662	1,631
CloserStill Group				
Ordinary shares	1	156	1	11
Preference shares	334	334	334	334
Loan stock	1,412	1,412	1,412	1,412
	1,747	1,902	1,747	1,757
Wear Inns				
Ordinary shares	239	–	239	–
Preference shares	103	507	103	692
Loan stock	1,298	1,347	1,298	1,347
	1,640	1,854	1,640	2,039
It's All Good				
Ordinary shares	124	670	124	760
Loan stock	1,081	1,081	1,081	1,081
	1,205	1,751	1,205	1,841
Weldex (International) Offshore Holdings				
Ordinary shares	51	–	51	–
Loan stock	3,211	1,670	3,211	1,670
	3,262	1,670	3,262	1,670
Love Saving Group				
Ordinary shares	212	664	212	212
Preference shares	142	142	142	142
Loan stock	851	851	851	851
	1,204	1,656	1,204	1,204
Graza				
Ordinary shares	522	522	522	522
Loan stock	1,059	1,059	1,059	1,059
	1,581	1,581	1,581	1,581
Volumatic Holdings				
Ordinary shares	216	348	216	178
Loan stock	1,207	1,207	1,546	1,546
	1,423	1,555	1,762	1,724
Axial Systems Holdings				
Ordinary shares	145	–	145	940
Loan stock	859	859	859	859
	1,004	859	1,004	1,799

10. Unquoted investments *continued*

	30 September 2017 Total cost £000	30 September 2017 Carrying value £000	30 September 2016 Total cost £000	30 September 2016 Carrying value £000
Cawood Scientific				
Ordinary shares	–	–	124	1,570
Loan stock	–	–	949	949
	–	–	1,073	2,519
Optilan Group				
Ordinary shares	–	–	179	1,362
Loan stock	–	–	821	821
	–	–	1,000	2,183

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 30 September 2017 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 Great Britain.

Company	Class of shares (nominal value £0.0001)	Number held	Proportion of class held
Graza	Ordinary	150,908	33.5%

12. Debtors

	30 September 2017 £000	30 September 2016 £000
Amounts due from sale of investments	–	38
Prepayments and accrued income	653	323
Sundry debtors	8	8
	661	369

13. Creditors (amounts falling due within one year)

	30 September 2017 £000	30 September 2016 £000
Accruals and deferred income	81	947

14. Called-up equity share capital

	30 September 2017 £000	30 September 2016 £000
Allotted and fully paid: 105,026,156 (2016 96,440,979) ordinary shares of 25p	26,256	24,110

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 8,585,177 ordinary shares of 25p for cash at an average premium of 51.8p per share and there were no shares repurchased for cancellation.

A prospectus share offer was launched in September 2017, which was fully subscribed subsequent to the year end, resulting in 26,967,190 new ordinary shares being issued on 3 November 2017 for a gross cash consideration of £20,000,000.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 October 2016	2,599	544	40,514	7,360	2,073
Premium on issue of ordinary shares	4,446	–	–	–	–
Share issue expenses	(104)	–	–	–	–
Realised on disposal of investments	–	–	1,651	–	–
Transfer on disposal of investments	–	–	2,460	(2,460)	–
Movements in fair value of investments	–	–	–	1,072	–
Management fee charged to capital net of associated tax	–	–	(849)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,801
Dividends recognised in the year	–	–	(9,626)	–	(1,477)
At 30 September 2017	6,941	544	34,150	5,972	2,397

At 30 September 2017, distributable reserves amounted to £38,060,000 (30 September 2016 £42,627,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed investments.

16. Net asset value per share

The calculation of net asset value per share as at 30 September 2017 is based on net assets of £76,260,000 (30 September 2016 £77,200,000) divided by the 105,026,156 (30 September 2016 96,440,979) shares in issue at that date.

17. Financial instruments

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

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

In carrying on its investment activities, the company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the company are market risk, 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.

17. Financial instruments *continued*

Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment policy, 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.

15.2% (30 September 2016 15.7%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% increase in the bid price of these securities as at 30 September 2017 would have increased net assets and the total return for the year by £580,000 (30 September 2016 £606,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

64.5% (30 September 2016 74.0%) 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% overall increase in the valuation of the unquoted investments at 30 September 2017 would have increased net assets and the total return for the year by £2,459,000 (30 September 2016 £2,855,000); an equivalent change in the opposite direction 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:

	30 September 2017			30 September 2016		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	1,103	5.9%	3.0	1,577	5.7%	3.5
Fixed-rate investments in unquoted companies	15,618	10.8%	2.5	12,840	10.5%	3.1
	16,721			14,417		

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 0.25% at 30 September 2017 (30 September 2016 0.25%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 0.34% at 30 September 2017 (30 September 2016 0.38%). The amounts held in floating rate investments at the balance sheet date were as follows:

	30 September 2017 £000	30 September 2016 £000
Floating rate loans to unquoted companies	11,923	20,230
Interest-bearing investment funds	3,811	2,769
Interest-bearing deposit accounts	9,981	4,206
	25,715	27,205

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. The investment adviser and the board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 30 September 2017 the company's financial assets exposed to credit risk comprised the following:

	30 September 2017 £000	30 September 2016 £000
Listed fixed-interest investments	1,103	1,577
Fixed-rate investments in unquoted companies	15,618	12,840
Floating rate loans to unquoted companies	11,923	20,230
Interest-bearing investment funds	3,811	2,769
Interest-bearing deposit accounts	9,981	4,206
Accrued dividends and interest receivable	645	308
	43,081	41,930

Credit risk relating to listed fixed-interest investments is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government, European Union governments and major UK and international companies and institutions. Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (a nominee company of Speirs & Jeffrey Limited in the case of listed fixed-interest investments and nominee companies of Brewin Dolphin Limited or Speirs & Jeffrey Limited in the case of quoted equity securities). 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 banks. There was no significant concentration of credit risk to counterparties at 30 September 2017 or 30 September 2016.

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 listed fixed-interest investments are considered to be readily realisable as they are of high credit quality as outlined above.

The company's liquidity risk is managed on a continuing basis by the investment adviser 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 30 September 2017 these investments were valued at £21,576,000 (30 September 2016 £14,888,000).

18. Contingencies

At 30 September 2017 contingent assets in respect of potential deferred proceeds from the sale of investee companies not recognised in these financial statements amounted to approximately £419,000 (30 September 2016 £741,000). The extent to which these amounts will become receivable is dependent on future events and accordingly it is not considered appropriate to recognise them in the financial statements at this stage.

The company had no contingent liabilities at 30 September 2017 or 2016.

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