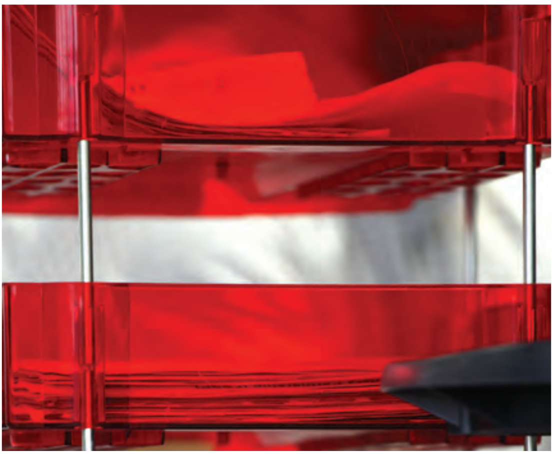
Northern Venture Trust PLC

Half-yearly financial report

31 March 2016



nvm
private equity

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

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

Contents

Financial summary

	Six months ended 31 March 2016	Six months ended 31 March 2015	Year ended 30 September 2015
Net assets	£77.9m	£84.5m	£78.9m
Net asset value per share	82.9p	88.6p	83.0p
Return per share			
Revenue	0.9p	1.1p	2.0p
Capital	1.9p	2.7p	5.2p
Total	2.8p	3.8p	7.2p
Dividend per share declared in respect of the period			
First interim dividend	3.0p	3.0p	3.0p
Second interim (special) dividend	7.0p	6.0p	6.0p
Final dividend	–	–	3.0p
Total	10.0p	9.0p	12.0p
Cumulative return to shareholders since launch			
Net asset value per share	82.9p	88.6p	83.0p
Dividends paid per share*	138.5p	126.5p	135.5p
Net asset value plus dividends paid per share	221.4p	215.1p	218.5p
Mid-market share price at end of period	76.75p	80.00p	76.00p
Share price discount to net asset value	7.4%	9.7%	8.4%
Tax-free dividend yield (based on mid-market share price)			
Excluding special dividend	7.8%	7.5%	7.9%
Including special dividend	16.9%	15.0%	15.8%

*Excluding interim dividends payable on 30 June 2016

Key dates

Half-yearly results announced
17 May 2016

Shares quoted ex dividend
2 June 2016

Record date for interim dividends
3 June 2016

Interim dividends paid
30 June 2016

Half-yearly management report

for the six months ended 31 March 2016

Our venture capital portfolio has generally made good progress over the past six months and two significant exits were achieved, enabling the board to declare a special dividend in addition to the usual interim payment. However we are still evaluating the effect of the Government's recent changes to the VCT legislation, which have already altered the way in which VCTs go about their investment activities and could have an impact on portfolio returns in the longer term.

Results and dividend

The unaudited net asset value (NAV) per share at 31 March 2016 was 82.9p, compared with the audited figure of 83.0p at 30 September 2015. The overall return per share before dividends for the six months ended 31 March 2016 as shown in the income statement was 2.8p (six months ended 31 March 2015 3.8p), equivalent to 3.4% of the NAV at the start of the period. Investment income and running costs were both lower than in the corresponding period last year, but the reduction in income was proportionately greater with the result that the revenue return per share fell from 1.1p to 0.9p.

Investment realisations from the venture capital portfolio in the half year produced a surplus of £1.1 million over September 2015 carrying value, and £3.4 million over original cost. In addition, there was a net uplift of £1.3 million in the valuation of the ongoing portfolio. Against this favourable background the directors have decided to declare a special dividend of 7.0p per share, which will be paid as a second interim dividend for the year ending 30 September 2016.

It has long been our policy to maintain the annual dividend at not less than 6.0p, and accordingly an unchanged first interim dividend of 3.0p per share for the year ending 30 September 2016 has also been declared. The first and second (special) interim dividends, totalling 10.0p per share, will be paid on 30 June 2016 to shareholders on the register on 3 June 2016. Your directors will keep future dividend policy under review, in the light of the changes which we expect to take place in the investment portfolio as the new VCT regulations take effect over the coming months and years.

Investments

During the period exits were achieved from the investments in **Kitwave One** and **Control Risks Group Holdings**. **Kitwave One** was sold in a secondary management buy-out financed by Pricoa Capital, generating initial proceeds of £3.5 million and a gain of £2.0 million over cost. A further £0.5 million may become receivable over the next 18 months, but is conditional and therefore has not been recognised in our financial statements at this stage. **Control Risks Group Holdings** was acquired by an employee ownership trust, our investment realising proceeds of £1.5 million and a gain of £0.7 million. We also received deferred proceeds totalling £0.7 million, not previously recognised in the financial statements, from the sales of **Alaric Systems** and **Kerridge Commercial Systems** in earlier years.

No new venture capital investments were completed in the period. Our market has suffered from prolonged uncertainty as a result of the legislative changes on which I comment further below, and investment activity among VCTs generally has been at a very low level in recent months. A follow-on investment of £0.5 million was made in **No 1 Traveller**, to support the company's continuing programme of airport lounge development. It is however encouraging to report that subsequent to 31 March 2016 we have completed our first new investment under the revised VCT rules, a £0.9 million development capital funding for **MPD Group**, a Manchester-based business operating in the logistics technology sector.

Shareholder issues

The strong flow of cash from successful investment realisations in recent years, added to the £15 million raised in the 2013/14 public share offer, has meant that there has been no need to raise additional funds from shareholders in the 2014/15 and 2015/16 tax years. The directors are conscious that many shareholders would welcome the opportunity to make a further investment in the company, and we will keep the possibility of further share offers under review in the light of future realisation proceeds and new investment commitments.

We announced in January 2016 that the dividend investment scheme, which had been temporarily suspended pending our initial review of the changes in the VCT legislation, would be reinstated with immediate effect. The scheme enables shareholders to re-invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions. Details of the scheme can be obtained from the company secretary.

The company has continued to buy back shares in the market, when necessary in order to maintain liquidity, at a 5% discount to NAV. During the six months ended 31 March 2016 a total of 1,140,000 shares were repurchased by the company for cancellation, at an average price of 77p.

VCT qualifying status

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Our investment adviser, NVM, monitors the position closely and reports regularly to the board. Philip Hare & Associates LLP has continued to act as independent adviser to the company on VCT taxation matters.

VCT legislation

The Finance Act (No 2) 2015, which received Royal Assent in November 2015, introduced some fundamental changes to the legislation governing the investments which may be made by VCTs. The Government has indicated that the changes were prompted by the need to comply with the European Commission's State aid rules. The main provisions relevant to our company are:

- It will no longer be permissible for companies to use funds invested by VCTs to acquire existing shares or businesses – in future such funds may be used by investee companies only for "growth and development" purposes.
- In order to be eligible for VCT investment, companies will normally have to have made their first commercial sale within the past seven years (ten years in the case of "knowledge-intensive" businesses, as defined by the legislation).
- In addition to the existing £5 million annual limit on the amount that companies can raise from State aided sources such as VCTs, there will be a new £12 million lifetime limit (£20 million for knowledge-intensive businesses).

These are significant changes which are clearly designed to focus future VCT investment on early stage opportunities: HM Revenue & Customs' draft guidelines, which were not published until 10 May 2016, confirm that VCT investment should be used only to fund "growth and development". We have yet to see how HMRC will apply these criteria in practice but our current experience is that the process of obtaining VCT clearance for new investments has become more difficult and time-consuming. This is particularly frustrating given that we are currently seeing an encouraging flow of opportunities which appear suitable for investment under the new rules.

As we have already indicated, it is likely that there will be a gradual change in the composition of the investment portfolio as older holdings are sold and new investments which qualify under the revised rules are added. We expect that this will lead to a greater volatility in investment returns, with probably a greater reliance in future on capital growth rather than income yield. However, our investment adviser NVM has invested successfully in early stage companies over many years and has already taken steps to augment its investment team and re-focus its marketing approach. Whilst we do not underestimate the task ahead, we believe that we are well equipped to implement the new rules for future investments whilst also seeking to maximise returns from our existing portfolio.

Outlook

The encouraging performance of the investment portfolio has inevitably been rather overshadowed during the past six months by the radical changes to the VCT legislation. Nevertheless we believe that the foundations are in place for a successful transition to a different type of investment in future, and we look forward to continuing to deliver good returns to shareholders.

On behalf of the Board

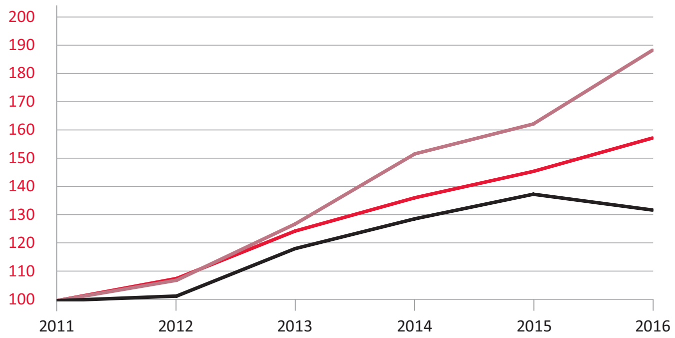
Simon Constantine
Chairman

17 May 2016

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

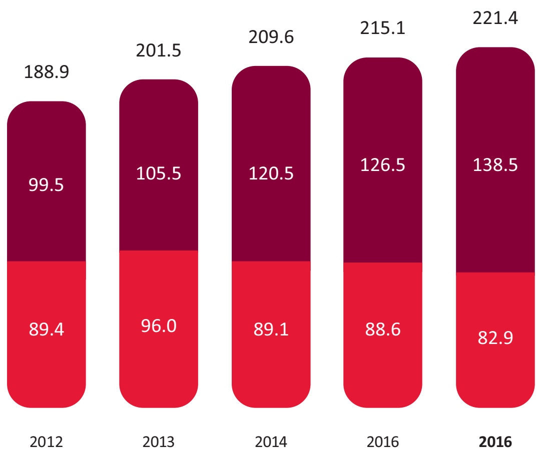
Five years to 31 March 2016 (31 March 2011 = 100)



Northern Venture Trust NAV total return
Northern Venture Trust share price total return
UK equity market index total return

Net asset value and cumulative dividends per share

As at 31 March (pence per share)



Cumulative dividends paid
Net asset value per share

Investment portfolio

as at 31 March 2016

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest private equity investments			
Buoyant Upholstery	1,675	4,041	5.2
Silverwing	1,774	2,722	3.5
MSQ Partners Group	1,695	2,618	3.4
Lineup Systems	974	2,470	3.2
No 1 Traveller	2,173	2,364	3.0
Entertainment Magpie Group	1,611	2,059	2.6
Wear Inns	1,640	1,961	2.5
Weldex (International) Offshore Holdings	3,262	1,959	2.5
Cawood Scientific	1,073	1,789	2.3
IDOX*	269	1,788	2.3
Biological Preparations Group	2,366	1,759	2.3
Closerstill Group	1,747	1,747	2.3
It's All Good	1,205	1,741	2.2
Axial Systems Holdings	1,004	1,738	2.2
Volumatic Holdings	1,762	1,694	2.2
	24,230	**32,450**	**41.7**
Other private equity investments			
Agilitas IT Holdings	1,662	1,686	2.2
CGI Group Holdings	3,818	1,639	2.1
Graza	1,581	1,581	2.0
Hunley	1,581	1,581	2.0
Oceanos	1,581	1,581	2.0
Saluda	1,580	1,580	2.0
Seawise	1,580	1,580	2.0
Turbinia	1,580	1,580	2.0
Arleigh Group	39	1,338	1.7
Love Saving Group	1,204	1,204	1.6
Optilan Group	1,000	1,033	1.3
Haystack Dryers	1,661	895	1.2
Vectura Group**	247	740	1.0
Intuitive Holding	1,674	720	0.9
Lanner Group	579	719	0.9
Arnlea Holdings	1,305	585	0.8
Sinclair Pharma*	425	536	0.7
Nasstar*	323	532	0.7
Gentronix	678	339	0.4
Brady*	386	301	0.4
RTC Group*	436	291	0.4
Collagen Solutions*	321	275	0.4
Kirton Group	1,155	258	0.3
Fresh Approach (UK) Holdings	1,475	173	0.2
Gear4music (Holdings)*	178	170	0.2
Ideagen*	89	126	0.2
Other investments each valued at less than £100,000	243	8	–
Total private equity investments	**52,611**	**55,501**	**71.3**
Listed equity investments	7,777	7,741	9.9
Listed interest-bearing investments	6,223	6,043	7.8
Total fixed asset investments	**66,611**	**69,285**	**89.0**
Cash and cash equivalents		8,416	10.8
Debtors less creditors		161	0.2
Net assets		**77,862**	**100.0**

*Quoted on AIM **Listed on London Stock Exchange

Income statement

(unaudited) for the six months ended 31 March 2016

	Six months ended 31 March 2016 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	1,053	1,053
Movements in fair value of investments	–	1,284	1,284
	–	2,337	2,337
Income	1,338	–	1,338
Investment management fee	(207)	(622)	(829)
Other expenses	(206)	–	(206)
Return on ordinary activities before tax	925	1,715	2,640
Tax on ordinary activities	(104)	104	–
Return on ordinary activities after tax	821	1,819	2,640
Return per share	0.9p	1.9p	2.8p

- The total column of this statement is the Statement of Total Comprehensive Income of the company prepared in accordance with Financial Reporting Standards (“FRS”). The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies (“AIC SORP”).
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

	Six months ended 31 March 2015			Year ended 30 September 2015	
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	4,490	4,490	–	5,019	5,019
–	(1,476)	(1,476)	–	1,189	1,189
–	3,014	3,014	–	6,208	6,208
1,753	–	1,753	3,123	–	3,123
(215)	(645)	(860)	(433)	(1,617)	(2,050)
(259)	–	(259)	(456)	–	(456)
1,279	2,369	3,648	2,234	4,591	6,825
(202)	137	(65)	(333)	333	–
1,077	2,506	3,583	1,901	4,924	6,825
1.1p	2.7p	3.8p	2.0p	5.2p	7.2p

Balance sheet

(unaudited) as at 31 March 2016

	31 March 2016 £000	31 March 2015 £000	30 September 2015 £000
Fixed assets			
Investments	69,285	58,995	72,680
Current assets			
Debtors	330	283	302
Cash and cash equivalents	8,416	25,479	6,418
	8,746	25,762	6,720
Creditors (amounts falling due within one year)	(169)	(238)	(452)
Net current assets	8,577	25,524	6,268
Net assets	77,862	84,519	78,948
Capital and reserves			
Called-up equity share capital	23,490	23,850	23,775
Share premium	1,359	1,359	1,359
Capital redemption reserve	513	152	228
Capital reserve	47,521	55,772	47,787
Revaluation reserve	2,674	823	3,367
Revenue reserve	2,305	2,563	2,432
Total equity shareholders' funds	77,862	84,519	78,948
Net asset value per share	82.9p	88.6p	83.0p

Statement of changes in equity

(unaudited) for the six months ended 31 March 2016

	Non-distributable reserves				Distributable reserves		Total
	Share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
Six months ended 31 March 2016							
At 1 October 2015	23,775	1,359	228	3,367	47,787	2,432	78,948
Return on ordinary activities after tax for the period	–	–	–	(693)	2,512	821	2,640
Re-purchase of shares	(285)	–	285	–	(881)	–	(881)
Dividends recognised	–	–	–	–	(1,897)	(948)	(2,845)
At 31 March 2016	23,490	1,359	513	2,674	47,521	2,305	77,862
Six months ended 31 March 2015							
At 1 October 2014	23,770	1,073	106	10,788	45,348	2,436	83,521
Return on ordinary activities after tax for the period	–	–	–	(9,965)	12,471	1,077	3,583
Net proceeds of share issues	126	286	–	–	–	–	412
Re-purchase of shares	(46)	–	46	–	(145)	–	(145)
Dividends recognised	–	–	–	–	(1,902)	(950)	(2,852)
At 31 March 2015	23,850	1,359	152	823	55,772	2,563	84,519
Year ended 30 September 2015							
At 1 October 2014	23,770	1,073	106	10,788	45,348	2,436	83,521
Return on ordinary activities after tax for the period	–	–	–	(7,421)	12,345	1,901	6,825
Net proceeds of share issues	127	286	–	–	–	–	413
Re-purchase of shares	(122)	–	122	–	(373)	–	(373)
Dividends recognised	–	–	–	–	(9,533)	(1,905)	(11,438)
At 30 September 2015	23,775	1,359	228	3,367	47,787	2,432	78,948

Statement of cash flows

(unaudited) for the six months ended 31 March 2016

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Cash flows from operating activities			
Return on ordinary activities before tax	2,640	3,648	6,825
Adjustments for:			
Gain on disposal of investments	(1,053)	(4,490)	(5,019)
Movements in fair value of investments	(1,284)	1,476	(1,189)
(Increase)/decrease in debtors	(28)	75	56
(Decrease)/increase in creditors	(283)	(230)	50
Net cash (outflow)/inflow from operating activities	(8)	479	723
Investing activities			
Purchase of investments	(914)	(5,508)	(18,300)
Sale/repayment of investments	6,646	20,582	22,882
Net cash inflow from investing activities	5,732	15,074	4,582
Financing activities			
Issue of shares	–	427	428
Share issue expenses	–	(15)	(15)
Share subscriptions held pending allotment	–	–	–
Re-purchase of ordinary shares for cancellation	(881)	(145)	(373)
Equity dividends paid	(2,845)	(2,852)	(11,438)
Net cash (outflow) from financing	(3,726)	(2,585)	(11,398)
Net increase/(decrease) in cash and cash equivalents	1,998	12,968	(6,093)
Cash and cash equivalents at beginning of period	6,418	12,511	12,511
Cash and cash equivalents at end of period	8,416	25,479	6,418

Notes to the financial statements

(unaudited) for the six months ended 31 March 2016

1 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 ("SORP") for investment trusts and venture capital trusts issued by the Association of Investment Companies ("AIC") in November 2014.

2 Each of the directors confirms that to the best of his knowledge the half-yearly financial statements have been prepared in accordance with the statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

3 The calculation of the revenue and capital return per share is based on the return on ordinary activities after tax for the six months ended 31 March 2016 and on 94,713,918 (2015 94,798,353) ordinary shares, being the weighted average number of shares in issue during the period.

4 The calculation of net asset value per share is based on the net assets at 31 March 2016 divided by the 93,959,820 (2015 95,399,820) ordinary shares in issue at that date.

5 The unaudited half-yearly financial statements for the six months ended 31 March 2016 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 30 September 2015 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The auditor's report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 30 September 2015, except where changes were required by the adoption of FRS 102. An assessment of the impact of adopting FRS 102 has been carried out and no restatement of balances as at the transition date, 1 October 2015, or of the comparative figures in the income statement or balance sheet is considered necessary.

6 The first interim dividend of 3.0p per share and the second interim dividend of 7.0p per share for the year ending 30 September 2016 will be paid on 30 June 2016 to shareholders on the register on 3 June 2016.

7 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company's registered office, and on the NVM Private Equity LLP website, www.nvm.co.uk.

Risk management

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

Investment and liquidity risk: many of the company's investments are in small and medium-sized unquoted and AIM-quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. ***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 can be very little, if any, market demand for shares in smaller companies quoted on AIM. ***Mitigation:*** the company's quoted investments are actively managed by specialist managers and the board keeps the portfolio under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. ***Mitigation:*** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK, which reflects the European Commission's state aid rules. Changes to the UK legislation or the state aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. ***Mitigation:*** the board and the 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: the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. ***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.

Company information

Directors
Simon Constantine (Chairman)
Nigel Beer
Richard Green
Tim Levett
David Mayes
Hugh Younger

Secretary
Christopher Mellor FCA MCSI

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