Northern 3 VCT PLC

Half-yearly financial report
30 September 2012

nvm
private equity

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

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

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Financial summary

Six months ended 30 September:	2012	2011
Net assets	**£47.2m**	£43.2m
Net asset value per share	**96.8p**	93.4p
Return per share		
Revenue	**1.0p**	1.9p
Capital	**1.9p**	1.8p
Total	**2.9p**	3.7p
Interim dividend declared in respect of the period	**2.0p**	2.0p
Cumulative return to shareholders since launch		
Net asset value per share	**96.8p**	93.4p
Dividends paid per share*	**36.4p**	31.4p
Net asset value plus dividends paid per share	**133.2p**	124.8p
Mid-market share price at end of period	**82.1p**	78.1p
Share price discount to net asset value	**15.2%**	16.4%

*Excluding interim dividend payable 11 January 2013

Key dates

Half-yearly results announced
8 November 2012

Shares quoted ex dividend
5 December 2012

Interim dividend paid (to shareholders on register on 7 December 2012)
11 January 2013

Half-yearly management report

for the six months ended 30 September 2012

The investment portfolio continues to make good overall progress despite the persistent difficulties in the UK economy.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2012, after deducting the 2011/12 final dividend of 3.0p per share paid during the period, was 96.8p – an increase of 0.1p over the audited NAV of 96.7p as at 31 March 2012. The return per share for the period before dividends, as shown in the income statement, was 2.9p compared with 3.7p in the corresponding six month period to 30 September 2011.

Investment income for the period was £0.8 million, compared with £1.2 million in the corresponding period last year. The reduction was due to a non-recurring receipt of £0.5 million last year on the sale of Promanex Group Holdings. The revenue return per share was 1.0p (corresponding period 1.9p).

Your board has declared an unchanged interim dividend of 2.0p per share, which will be paid on 11 January 2013 to shareholders on the register at the close of business on 7 December 2012. As announced in February 2012, we now aim to maintain the annual dividend at not less than 5.0p per share and so we expect, subject to unforeseen circumstances, to propose in due course a final dividend for the current year of at least 3.0p, which will be payable in July 2013.

Investment portfolio

During the six months ended 30 September 2012 the following holdings were acquired for the venture capital portfolio:

- **Advanced Computer Software Group** (£273,000) – additional investment in AIM-quoted developer of computer software for the healthcare market, London
- **Silverwing** (£1,272,000) – developer of non-destructive testing solutions for the oil and gas industry, Swansea
- **Tinglobal Holdings** (£1,000,000) – additional investment in supplier of refurbished mid-range computer equipment, Cirencester
- **Vectura Group** (£247,000) – LSE-listed developer of therapies for the treatment of respiratory diseases, Chippenham
- **Wear Inns** (£567,000) – additional investment in owner of an estate of community pubs in the North East and Yorkshire

In May the company's investment in **Closerstill Holdings**, the business-to-business exhibition organiser, was sold to Phoenix Equity Partners for £2.2 million in cash, realising a gain of £1.5 million over original cost. The related investment in **Closer2 Investments** was at the same time exchanged for a holding of equivalent value in **Closerstill Group**, a new exhibitions group funded by Phoenix. There were a number of smaller disposals and loan stock repayments which took the total cash proceeds in the half year to £3.6 million.

Market interest rates seem likely to remain low for the foreseeable future and we have continued with our policy of holding part of the company's funds in higher-yielding blue-chip listed equities, which have returned a satisfactory yield as well as some capital appreciation.

James Ferguson *Chairman*

Share buy-back policy

In order to assist in the provision of liquidity to shareholders, the company has maintained its policy of buying back its shares in the market at a 15% discount to the latest published NAV, subject to market conditions and the availability of cash resources and distributable reserves. During the six months ended 30 September 2012, 637,000 shares (representing 1.3% of the company's issued capital) were purchased at an average price of 80.9p per share. The mid-market share price ranged between 78p and 82p, maintaining the discount to NAV at around 15%.

VCT qualifying status

The company has continued to comply with the conditions laid down by HM Revenue & Customs for the maintenance of approved venture capital trust status. Our managers monitor the position closely and the board also receives regular reports from our taxation advisers at PricewaterhouseCoopers LLP.

VCT legislation and regulation

Reference was made in the March 2012 annual report to the Government's 2012 Budget proposals to relax the limits on the size of VCT-qualifying companies and increase the amount of funding which companies can raise from VCTs to £10 million per annum. The funding limit in any 12 month period was subsequently reduced from £10 million to £5 million at the insistence of the European Commission. The Government has also introduced potentially alarming penalties for any VCT which invests in a company which exceeds the fund-raising limit. Our managers and their advisers are still working out the practical implications of the new regime.

The FSA's Retail Distribution Review is likely to bring about significant changes in the way VCTs raise funds through new share issues. The FSA has also published a consultation paper on the retail distribution of unregulated collective investment schemes, which has the unwelcome aim of restricting the categories of retail investors to whom financial advisers can promote VCT share offers. As listed companies, VCTs are already subject to a wide range of regulatory requirements and investor safeguards, and your board believes that the proposed changes are inappropriate. We have made a robust response to the consultation paper jointly with the other Northern VCTs and must now await the outcome.

Prospects

The investment portfolio continues to make good overall progress despite the persistent difficulties in the UK economy. Over the past three years it has been possible to increase the annual dividend whilst also achieving an increase in the underlying net asset value, and your board and managers are focussed on continuing to provide an attractive total return to shareholders.

On behalf of the Board

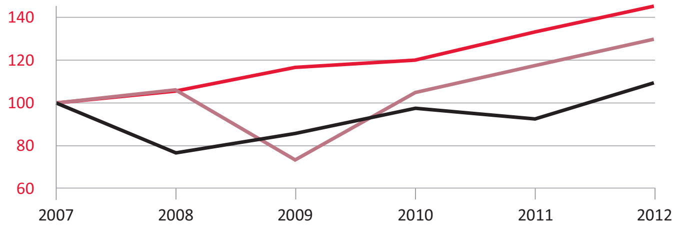
James Ferguson
Chairman

8 November 2012

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

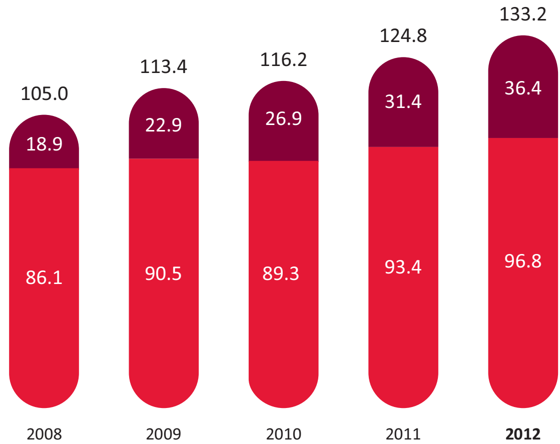
Five years to 30 September 2012 (30 September 2007 = 100)



Northern 3 VCT NAV total return
Northern 3 VCT share price total return
FTSE All-Share index total return

Net asset value and cumulative dividends per share

As at 30 September (pence per share)



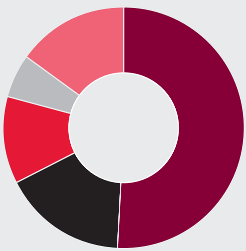
Cumulative dividends paid
Net asset value per share

Investment portfolio

as at 30 September 2012

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Kerridge Commercial Systems	1,663	4,097	8.7
Advanced Computer Software Group*	1,034	2,262	4.8
Volumatic	2,096	2,096	4.4
IDOX*	660	2,072	4.4
Paladin Group	1,013	1,864	4.0
Wear Inns	1,406	1,779	3.8
Tinglobal Holdings	1,988	1,672	3.5
Silverwing	1,272	1,272	2.7
Control Risks Group Holdings	746	1,173	2.5
Kitwave One	1,000	1,014	2.1
Lineup Systems	974	974	2.1
RCC Lifesciences	995	965	2.0
Cawood Scientific	825	915	1.9
Axial Systems Holdings	1,293	827	1.8
Sinclair IS Pharma*	753	757	1.6
	17,718	23,739	50.3
Other venture capital investments	11,286	8,233	17.4
Total venture capital investments	29,004	31,972	67.7
Listed equity investments	5,000	5,508	11.7
Listed fixed-interest investments	2,594	2,646	5.6
Total fixed asset investments	36,598	40,126	85.0
Net current assets		7,085	15.0
Net assets		47,211	100.0

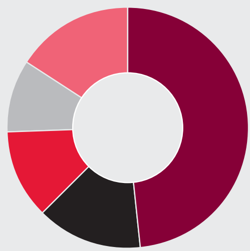
*Quoted on AIM



30 September 2012

Asset allocation

30 September 2012		30 September 2011
51.1%	Venture capital – unquoted	48.5%
16.6%	Venture capital – AIM quoted	14.0%
11.7%	Listed equity	12.0%
5.6%	Listed fixed interest	9.7%
15.0%	Cash and short term deposits	15.8%



30 September 2011

Income statement

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	546	546
Movements in fair value of investments	–	697	697
	–	1,243	1,243
Income	812	–	812
Investment management fee	(126)	(378)	(504)
Other expenses	(145)	–	(145)
Return on ordinary activities before tax	541	865	1,406
Tax on return on ordinary activities	(53)	53	–
Return on ordinary activities after tax	488	918	1,406
Return per share	1.0p	1.9p	2.9p
Dividends paid/proposed in respect of the period	1.0p	1.0p	2.0p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.

Reconciliation of movements in shareholders' funds

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012 £000
Equity shareholders' funds at 1 April 2012	47,798
Return on ordinary activities after tax	1,406
Dividends recognised in the period	(1,475)
Net proceeds of share issues	–
Shares issued on merger	–
Shares purchased for cancellation	(518)
Equity shareholders' funds at 30 September 2012	47,211

Six months ended 30 September 2011			Year ended 31 March 2012		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	610	610	–	628	628
–	333	333	–	3 ,023	3 ,023
–	943	943	–	3,651	3,651
1,178	–	1,178	1,746	–	1,746
(96)	(289)	(385)	(208)	(894)	(1,102)
(150)	–	(150)	(283)	(11)	(294)
932	654	1,586	1,255	2,746	4,001
(180)	90	(90)	(210)	210	–
752	744	1,496	1,045	2,956	4,001
1.9p	1.8p	3.7p	2.4p	6.8p	9.2p
1.0p	1.0p	2.0p	2.2p	2.8p	5.0p

Six months ended 30 September 2011 £000	Year ended 31 March 2012 £000
37,428	37,428
1,496	4,001
(1,011)	(1,931)
–	3,418
5,479	5,482
(211)	(600)
43,181	47,798

Balance sheet

(unaudited) as at 30 September 2012

	30 September 2012 £000	30 September 2011 £000	31 March 2012 £000
Fixed asset investments	40,126	36,547	39,606
Current assets			
Debtors	181	464	192
Cash and deposits	7,071	6,867	8,511
	7,252	7,331	8,703
Creditors (amounts falling due within one year)	(167)	(697)	(511)
Net current assets	7,085	6,634	8,192
Net assets	47,211	43,181	47,798
Capital and reserves			
Called-up equity share capital	2,438	2,313	2,470
Share premium	3,220	26,560	3,219
Capital redemption reserve	462	406	430
Capital reserve	36,784	11,492	36,756
Revaluation reserve	3,528	1,361	4,042
Revenue reserve	779	1,049	881
Total equity shareholders' funds	47,211	43,181	47,798
Net asset value per share	96.8p	93.4p	96.7p

Cash flow statement

(unaudited) for the six months ended 30 September 2012

	Six months ended 30 September 2012 £000	Six months ended 30 September 2011 £000	Year ended 31 March 2012 £000
Net cash (outflow)/inflow from operating activities	(105)	645	528
Taxation			
Corporation tax paid	–	–	–
Financial investment			
Purchase of investments	(3,460)	(2,243)	(4,798)
Sale/repayment of investments	4,118	5,225	7,429
Net cash inflow from financial investment	658	2,982	2,631
Acquisitions			
Cash and deposits acquired on merger	–	604	604
Equity dividends paid	(1,475)	(1,011)	(1,931)
Net cash (outflow)/inflow before financing	(922)	3,220	1,832
Financing			
Issue of shares	–	–	3,598
Share issue expenses	–	(82)	(259)
Purchase of ordinary shares for cancellation	(518)	(211)	(600)
Net cash (outflow)/inflow from financing	(518)	(293)	2,739
(Decrease)/increase in cash and deposits	(1,440)	2,927	4,571
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	1,406	1,586	4,001
Gain on disposal of investments	(546)	(610)	(628)
Movements in fair value of investments	(697)	(333)	(3,023)
Decrease/(increase) in debtors	11	(42)	230
(Decrease)/increase in creditors	(279)	44	(52)
Net cash (outflow)/inflow from operating activities	(105)	645	528

Analysis of movement in net funds	1 April 2012 £000	Cash flows £000	30 September 2012 £000
Cash and deposits	8,511	(1,440)	7,071

Notes to the financial statements

(unaudited) for the six months ended 30 September 2012

1 The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2012 and on 49,068,638 (2011 40,626,406) ordinary shares, being the weighted average number of shares in issue during the period.

3 The calculation of net asset value per share is based on the net assets at 30 September 2012 divided by the 48,767,103 (2011 46,255,261) ordinary shares in issue at that date.

4 The interim dividend of 2.0p per share for the year ending 31 March 2013 will be paid on 11 January 2013 to shareholders on the register at the close of business on 7 December 2012.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2012 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been audited or reviewed by the company's independent auditor and have not been delivered to the Registrar of Companies. The figures for the year ended 31 March 2012 have been extracted from the financial statements for that period, which have been delivered to the Registrar of Companies; the independent auditor's report on those financial statements was unqualified. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 March 2012.

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

7 Copies of this half-yearly report have been mailed to shareholders and are available to the public at the company's registered office and on the NVM Private Equity Limited 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 risk: many of the company's investments are in small and medium-sized unquoted and AIM-quoted companies which are VCT qualifying holdings and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the investment managers on a regular basis.

Financial risk: as most of the company's investments involve a medium to long-term commitment and many are relatively illiquid, the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities. The company has very little exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuations in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or the AIM market and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide and the AIM market is no exception to this. In times of adverse sentiment there tends to be very little, if any, market demand for shares in the smaller companies quoted on AIM.

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

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

Political risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK as well as the European Commission's State Aid rules. Politically motivated changes to the UK legislation or the State Aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. The board and the manager monitor political developments and where appropriate seek to make representations either directly or through the relevant trade bodies.

Internal control risk: the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

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

Company information

Directors
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Chris Fleetwood
Tim Levett
John Waddell

Secretary
Christopher Mellor FCA MCSI

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