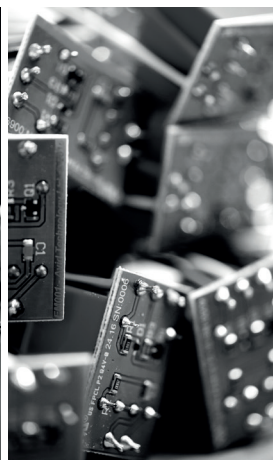


Northern 3 VCT PLC

Half-yearly financial report

30 September 2019



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

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

- 1 Financial summary
- 2 Half-yearly management report
- 4 Five year performance
- 5 Investment portfolio
- 6 Income statement
- 8 Balance sheet
- 9 Statement of changes in equity
- 10 Statement of cash flows
- 11 Notes to the financial statements
- 12 Risk management
- 13 Company information

Financial summary

	Six months ended 30 September 2019	Six months ended 30 September 2018	Year ended 31 March 2019
Net assets	£86.6m	£84.8m	£82.7m
Net asset value per share	92.1p	94.6p	94.2p
Return per share			
Revenue	0.3p	0.8p	1.8p
Capital	(0.1)p	3.3p	3.8p
Total	0.2p	4.1p	5.6p
Dividend declared in respect of the period	2.0p	2.0p	4.0p
Cumulative return to shareholders since launch			
Net asset value per share	92.1p	94.6p	94.2p
Dividends paid per share*	93.4p	89.4p	91.4p
Net asset value plus dividends paid per share	185.5p	184.0p	185.6p
Mid-market share price at end of period	86.5p	87.0p	86.0p
Share price discount to net asset value	6.1%	8.0%	8.7%
Tax-free dividend yield (based on the net asset value per share)**	4.2%	5.6%	4.3%

*Excluding interim dividend not yet paid

**The annualised dividend yield is calculated by dividing the dividends in respect of the 12 month period ended on each reference date by the net asset value per share at the start of the period.

Key dates

Half-yearly results announced

12 November 2019

Shares quoted ex dividend

2 January 2020

Interim dividend paid (to shareholders on register on 3 January 2020)

24 January 2020

Half-yearly management report

for the six months ended 30 September 2019

The profile of the unquoted portfolio is evolving as we continue to acquire investments in earlier stage innovative UK companies with high growth potential.

The unaudited net asset value (NAV) per share at 30 September 2019 was 92.1 pence (31 March 2019 (audited) 94.2 pence). The September figure is stated after deducting the final dividend totalling 2.0 pence per share in respect of the year ended 31 March 2019, which was paid in July 2019 and therefore recognised in the September 2019 half-yearly accounts.

The return per share for the half year as shown in the income statement, before deducting the dividend, was 0.2 pence, compared with a return of 4.1 pence in the six month period ended 30 September 2018.

The profile of the unquoted portfolio is evolving as we continue to acquire investments in earlier stage innovative UK companies with high growth potential. These investments represent 50% by value of the venture capital portfolio, with the remainder constituting investments in more mature businesses. The potential returns from early stage investing are attractive, however the investment holding period required will typically be longer and there may be greater fluctuations in short term results. Paying regular dividends and seeking to sustain the NAV per share are priorities for your board and we have confidence in the potential of the current portfolio to achieve these objectives in the medium to long term.

The directors have declared an unchanged interim dividend of 2.0 pence per share for the year ending 31 March 2020, which will be paid on 24 January 2020 to shareholders on the register at the close of business on 3 January 2020.

Investment portfolio

Three new investments were completed during the period for a total consideration of £2.0 million:

- **Voxpopme (£877,000)** – video based consumer insight software, Birmingham
- **Quotevine (£704,000)** – asset and automotive management software platform provider, Bedford
- **Duke & Dexter (£382,000)** – supplier of premium men's footwear, London

We continue to allocate a significant proportion of our annual investment activity to providing additional growth capital to our existing portfolio companies. A total of £2.6 million was invested in nine existing portfolio businesses during the period to support their continued development.

Proceeds from investment sales and repayments from the venture capital portfolio amounted to £4.1 million during the period, producing a realised gain over cost of £1.7 million. The most significant transaction related to **MSQ Partners Group** which was the subject of a secondary management buy-out financed by LDC. This represented an excellent result for Northern 3 VCT, delivering a return of over 2.5 times the original cost over the life of the investment. The transaction was close to completion as at the date of announcement of our last annual report and consequently the level of exit proceeds was reflected in the valuation which had been marked up as at 31 March 2019.

Share offers and liquidity

The board and NVM have undertaken a strategic review of the venture capital portfolio, assessing the progress of each investee company to date. The review considered the potential quantum and timing of capital required in each case to support further growth. We have concluded that there is a significant pipeline of attractive follow-on investment opportunities available to the company. NVM also reports a healthy flow of new businesses seeking capital to develop innovative products or services. In light of the expected strong investment rate in the coming years, your directors plan to launch a share offer in January 2020 to raise up to £13.3 million. If approved, it is intended that all shares to be issued under the offer will be allotted in the 2019-20 tax year.

Share buy-backs

We have maintained our policy of buying back our shares in the market, where necessary to maintain market liquidity, at a discount of 5% to NAV. During the period 1,218,000 shares, were re-purchased for cancellation at a total cost of £1,073,000.

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 manager monitors the position closely and the board also receives regular reports from our specialist taxation advisers.

VCT legislation

Amendments to the VCT scheme rules announced in 2017 are still being implemented on a phased basis and as previously reported, from April 2020 your company will be required to hold at least 80% of its funds in VCT qualifying assets (previously 70%). The board and our investment manager are monitoring progress towards this target closely. Having grown accustomed to frequent legislative change in recent years, we were also encouraged that no further amendments to the VCT scheme rules proposed in the most recent Autumn Budget Statement.

Prospects

We have been operating for some time against a backdrop of political and economic uncertainty and these conditions look set to continue for the time being as the deadline for the UK to leave the European Union has been further extended to accommodate a general election in December.

The earlier stage portfolio represents an increasingly important component of the company's asset allocation and will take time to mature. Our manager has a good record of dealing with periods of change and we remain confident in their ability to deliver good results for shareholders in the medium to long term.

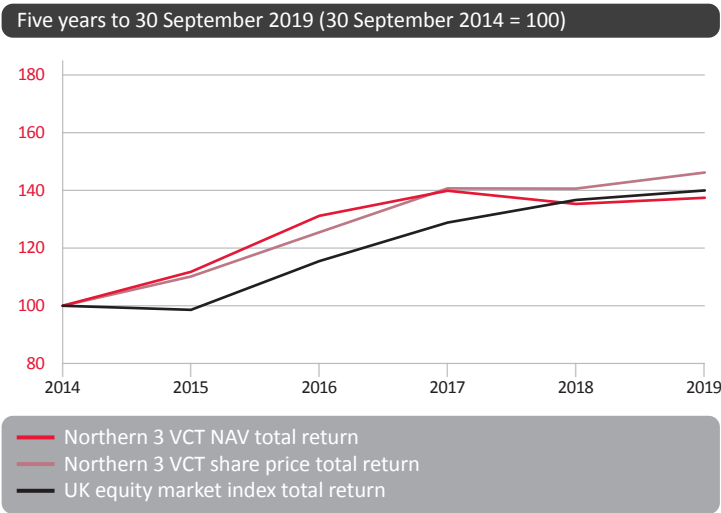
On behalf of the Board

James Ferguson
Chairman

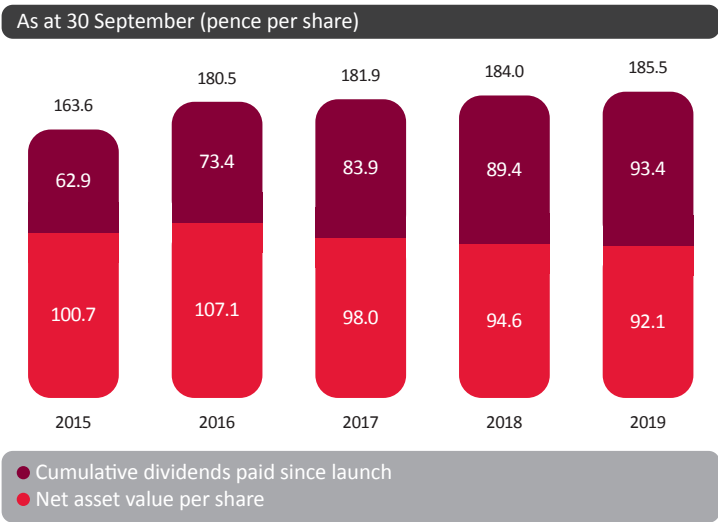
12 November 2019

Five year performance

Comparative return to shareholders (assuming dividends re-invested)



Net asset value and cumulative dividends per share

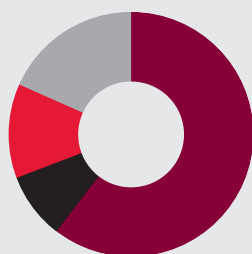


Investment portfolio

as at 30 September 2019

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Lineup Systems	974	4,502	5.2
Agilitas IT Holdings	1,135	3,817	4.4
Sorted Holdings	2,542	3,392	3.9
Ideagen*	541	2,190	2.5
Currentbody.com	1,270	2,113	2.4
SHE Software Group	1,850	2,083	2.4
Volumatic Holdings	906	2,038	2.4
Knowledgemotion	1,740	1,864	2.2
No 1 Lounges	1,748	1,685	1.9
It's All Good	1,131	1,636	1.9
Entertainment Magpie Group	1,360	1,565	1.8
AVID Technology Group	1,210	1,548	1.8
Intelling Group	1,118	1,508	1.8
Biological Preparations Group	1,915	1,496	1.7
Soda Software Labs	1,464	1,464	1.7
Fifteen largest venture capital investments	20,904	32,901	38.0
Other venture capital investments	31,412	26,881	31.0
Total venture capital investments	52,316	59,782	69.0
Listed equity investments	10,186	10,948	12.6
Total fixed asset investments	62,502	70,730	81.6
Net current assets		15,914	18.4
Net assets		86,644	100.0

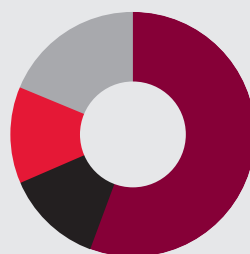
*Quoted on AIM



30 September 2019

Asset allocation

60.1%	● Venture capital – unquoted	55.7%
9.5%	● Venture capital – quoted	12.7%
12.7%	● Listed equity	12.9%
17.7%	● Cash and short-term deposits	18.7%



30 September 2018

Income statement

(unaudited) for the six months ended 30 September 2019

	Six months ended 30 September 2019		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	45	45
Movements in fair value of investments	–	448	448
	–	493	493
Income	680	–	680
Investment management fee	(208)	(623)	(831)
Other expenses	(195)	–	(195)
Return on ordinary activities before tax	277	(130)	147
Tax on return on ordinary activities	–	–	–
Return on ordinary activities after tax	277	(130)	147
Return per share	0.3p	(0.1)p	0.2p
Dividends paid/proposed in respect of the period	0.5p	1.5p	2.0p

- The total column of the income statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 *“The Financial Reporting Standard applicable in the UK and Republic of Ireland”*. The supplemental revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice *“Financial Statements of Investment Trust Companies and Venture Capital Trusts”* issued in November 2014 and updated in February 2018 with consequential amendments by the Association of Investment Companies (*“AIC SORP”*).
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the income statement derive from continuing operations.

Six months ended 30 September 2018			Year ended 31 March 2019		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	1,868	1,868	–	3,204	3,204
–	1,563	1,563	–	1,195	1,195
–	3,431	3,431	–	4,399	4,399
1,161	–	1,161	2,541	–	2,541
(188)	(563)	(751)	(397)	(1,190)	(1,587)
(186)	–	(186)	(373)	–	(373)
787	2,868	3,655	1,771	3,209	4,980
(94)	94	–	(219)	219	–
693	2,962	3,655	1,552	3,428	4,980
0.8p	3.3p	4.1p	1.8p	3.8p	5.6p
0.5p	1.5p	2.0p	1.5p	2.5p	4.0p

Balance sheet

(unaudited) as at 30 September 2019

	30 September 2019 £000	30 September 2018 £000	31 March 2019 £000
Fixed assets			
Investments	70,730	68,829	69,811
Current assets			
Debtors	1,067	117	211
Cash and cash equivalents	15,177	15,903	19,405
	16,244	16,020	19,616
Creditors (amounts falling due within one year)	(330)	(84)	(6,696)
Net current assets	15,914	15,936	12,920
Net assets	86,644	84,765	82,731
Capital and reserves			
Called-up equity share capital	4,705	4,482	4,393
Share premium	7,198	624	840
Capital redemption reserve	360	197	299
Capital reserve	64,931	68,536	65,665
Revaluation reserve	8,224	9,416	9,166
Revenue reserve	1,226	1,510	2,368
Total equity shareholders' funds	86,644	84,765	82,731
Net asset value per share	92.1p	94.6p	94.2p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2019

	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 April 2019	4,393	840	299	9,166	65,665	2,368	82,731
Return on ordinary activities after tax	–	–	–	(942)	812	277	147
Dividends paid	–	–	–	–	(473)	(1,419)	(1,892)
Net proceeds of share issues	373	6,358	–	–	–	–	6,731
Shares purchased for cancellation	(61)	–	61	–	(1,073)	–	(1,073)
At 30 September 2019	4,705	7,198	360	8,224	64,931	1,226	86,644
Six months ended 30 September 2018							
At 1 April 2018	4,483	214	171	8,463	69,721	1,208	84,260
Return on ordinary activities after tax	–	–	–	953	2,009	693	3,655
Dividends paid	–	–	–	–	(2,741)	(391)	(3,132)
Net proceeds of share issues	25	410	–	–	–	–	435
Shares purchased for cancellation	(26)	–	26	–	(453)	–	(453)
At 30 September 2018	4,482	624	197	9,416	68,536	1,510	84,765
Year ended 31 March 2019							
At 1 April 2018	4,483	214	171	8,463	69,721	1,208	84,260
Return on ordinary activities after tax	–	–	–	703	2,725	1,552	4,980
Dividends paid	–	–	–	–	(4,512)	(392)	(4,904)
Net proceeds of share issues	38	626	–	–	–	–	664
Shares purchased for cancellation	(128)	–	128	–	(2,269)	–	(2,269)
At 31 March 2019	4,393	840	299	9,166	65,665	2,368	82,731

*The revaluation reserve is generally non-distributable other than that part of the reserve relating to gains/losses on readily realisable quoted investments, which is distributable.

Statement of cash flows

(unaudited) for the six months ended 30 September 2019

	Six months ended 30 September 2019 £000	Six months ended 30 September 2018 £000	Year ended 31 March 2019 £000
Cash flows from operating activities			
Return on ordinary activities before tax	147	3,655	4,980
Adjustments for:			
Gain on disposal of investments	(45)	(1,868)	(3,204)
Movements in fair value of investments	(448)	(1,563)	(1,195)
(Increase)/decrease in debtors	(856)	50	(44)
Increase/(decrease) in creditors	126	(51)	68
Net cash (outflow)/inflow from operating activities	(1,076)	223	605
Cash flows from investing activities			
Purchase of investments	(6,789)	(11,378)	(18,342)
Sale/repayment of investments	6,363	8,750	15,700
Net cash outflow from investing activities	(426)	(2,628)	(2,642)
Cash flows from financing activities			
Issue of ordinary shares	6,852	447	702
Share issue expenses	(120)	(12)	(38)
Share subscriptions held pending allotment	(6,493)	—	6,493
Purchase of ordinary shares for cancellation	(1,073)	(453)	(2,269)
Equity dividends paid	(1,892)	(3,132)	(4,904)
Net cash outflow from financing activities	(2,726)	(3,150)	(16)
Net decrease in cash and cash equivalents	(4,228)	(5,555)	(2,053)
Cash and cash equivalents at beginning of period	19,405	21,458	21,458
Cash and cash equivalents at end of period	15,177	15,903	19,405

Notes to the financial statements

(unaudited) for the six months ended 30 September 2019

- 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 “*Financial Statements of Investment Trust Companies and Venture Capital Trusts*”, issued in November 2014 and updated in February 2018 with consequential amendments by the Association of Investment Companies (“AIC SORP”).
- 2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2019 and on 94,579,721 (2018: 89,776,911) 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 2019 divided by the 94,101,352 (2018: 89,642,232) ordinary shares in issue at that date.
- 4 The interim dividend of 2.0 pence per share for the year ending 31 March 2020 will be paid on 24 January 2020 to shareholders on the register at the close of business on 3 January 2020.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2019 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 31 March 2019 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent 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 31 March 2019.
- 6 Each of the directors confirms 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 LLP website, www.nvm.co.uk.

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 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, within the range permitted by the VCT scheme rules. The board reviews the investment portfolio with the manager on a regular basis.

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

Economic risk: events such as economic recession or general fluctuation in stock markets, exchange rates and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. **Mitigation:** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there may be very little, if any, market demand for shares in smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers, including NVM in the case of AIM-quoted investments, and the board keeps the portfolio and the actions taken 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 manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. **Mitigation:** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the investment 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: 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 manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Company information

Directors

James Ferguson (Chairman)
Chris Fleetwood
Tim Levett
John Waddell

Secretary

James Bryce LLB

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