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Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers, part of the Edinburgh Fund Managers group. The trust intends to invest mainly in unquoted venture capital situations and aims to provide high long-term returns to shareholders through a combination of dividend yield and capital growth.



2002

Northern 3 VCT PLC

Interim Report 31 March 2002



I am delighted to present my first report to shareholders since Northern 3 VCT's public share issue was launched in September 2001. The issue closed on 19 June 2002, having raised a total of £13.9 million before expenses. This is a satisfactory outcome given the adverse stock market conditions prevailing throughout the offer period, which have inevitably affected investor confidence in equity investment opportunities and have also reduced the number of investors able to take advantage of VCTs'

particular attraction as a means of deferring capital gains tax. I would like to take this opportunity to welcome all of our shareholders and thank them for their support.

The unaudited interim financial statements cover the period from 3 September 2001 (the date of incorporation of the company) to 31 March 2002, although the company has only been fully operational since 17 December 2001 when its listing on the London Stock Exchange became effective. The financial statements include the proceeds of shares allotted up to and including 31 March 2002, a total of £8.25 million net of issue expenses.

Net asset value

The unaudited net asset value per share at 31 March 2002 was 94.6p per share, a slight fall from the opening value (net of issue expenses) of 95.0p. This decrease reflects a small excess of operating expenses over income in the period. There was no capital gain or loss on investments, as almost all of the share issue proceeds were still held on interest-earning bank deposit at the period end.

Investments

The company's first VCT qualifying investment was completed during March when we invested £280,000 in the buy-out of **Keith Prowse**, the UK's leading provider of corporate hospitality services, from Wembley plc. Since 31 March additional investments have been completed in **PM Group**, an AiM-listed manufacturer of on-board vehicle weighing systems, and **Oxonica**, an early-stage venture in the emerging field of nanotechnology.

With net proceeds of over £13 million available for investment following the share issue, our primary target is to invest at least £9 million (ie 70% of the total) in VCT qualifying investments by the deadline of 30 September 2004. Northern Venture Managers are continuing to see a good flow of potential venture capital investments through their offices in Newcastle upon Tyne, Edinburgh and Reading.

As indicated in the share issue prospectus, the company's liquid funds will, pending investment in VCT qualifying companies, be held in a portfolio of listed fixed-interest

- 1 The calculation of the revenue and capital return per share is based on the return on ordinary activities after tax for the period and on 2,775,344 ordinary shares, being the weighted average number of shares in issue during the period from 3 September 2001 to 31 March 2002.
- 2 The unaudited financial statements for the period ended 31 March 2002 do not constitute statutory accounts with the meaning of S240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies.
- 3 Copies of this interim report have been mailed to shareholders and are available to the public at the company's registered office.

Cash Flow Statement

(unaudited) for the period ended 31 March 2002

	£000
Reconciliation of net revenue before taxation to net cash flow from operating activities	
Net revenue before taxation	(18)
(Increase) in debtors	(35)
Increase in creditors	223
Management fees charged to capital reserve	(20)
Net cash inflow from operating activities	<u>150</u>
Cash flow statement	
Net cash inflow from operating activities	150
Taxation	
Corporation tax recovered/(paid)	—
Financial investment	
Purchase of investments	(280)
Sale/repayment of investments	—
Net cash outflow from financial investment	(280)
Equity dividends paid	—
Net cash outflow before financing	<u>(130)</u>
Financing	
Issue of ordinary shares	8,687
Share issue expenses	(434)
Net cash inflow from financing	<u>8,253</u>
Increase in cash at bank	<u>8,123</u>
Analysis of cash balance	
At start of period	—
Net cash inflow for the period	<u>8,123</u>
At end of period	<u>8,123</u>

Chairman's Statement

securities managed by Edinburgh Fund Managers with the objectives of preserving capital value and generating an acceptable income yield.

Revenue and dividend

The statement of total return for the period to 31 March 2002 includes the investment income derived from the proceeds of share allotments, which took place on various dates from October 2001 onwards, and consequently does not reflect a normal half year's ongoing activities. After deducting expenses, the revenue loss for the period before tax was £18,000 – equivalent to a revenue loss per share of 0.7p (based on the weighted average of 2,775,344 shares in issue during the period).

As stated in the prospectus, it is intended that the company's first dividend will be paid in February 2003 as a final dividend in respect of the accounting period ending 30 September 2002, but this will of course be subject to the availability of a distributable surplus for the period as a whole. With interest rates at an historically low level, and bearing in mind that funds will be moved progressively from the listed fixed-interest portfolio into venture capital investments, it is likely in the short to medium term that any dividends paid will be relatively low. In the longer term our managers will seek to realise capital gains from investment disposals, with a view to distribution to shareholders by way of tax-free dividend under the VCT rules.

Prospects

The outcome of the public share offer has given us a sound financial base for the commencement of operations, and our managers have begun the process of building the VCT qualifying portfolio. Although there is still considerable uncertainty in the financial markets, we believe that the next two to three years will prove to be a good time to be investing in unquoted companies in the UK.

Over the next few months we intend to consider the possibility of launching a further share issue with a view to enlarging the company's capital base. This would allow a broader range and a larger average size of investment in the venture capital portfolio, spread the company's fixed costs over a wider base and help improve the prospects for market liquidity in the company's shares in the longer term. However any such move will be subject to the board's view of market conditions at the relevant time.

John Hustler

Chairman

20 June 2002

Statement of Total Return (incorporating the Revenue Account)

(unaudited) for the period ended 31 March 2002

	Revenue £000	Capital £000	Total £000
Gains on investments	—	—	—
Income	41	—	41
Investment management fee	(7)	(20)	(27)
Other expenses	(52)	—	(52)
Return on ordinary activities before tax	(18)	(20)	(38)
Tax on ordinary activities	—	—	—
Return on ordinary activities after tax	(18)	(20)	(38)
Dividends	—	—	—
Transfer to reserves	(18)	(20)	(38)
Return per share	(0.7)p	(0.7)p	(1.4)p

Balance Sheet

(unaudited) as at 31 March 2002

	£000
Fixed asset investments	280
Net current assets	7,935
Net assets	8,215
Capital and reserves	
Called-up equity share capital	434
Share premium	7,819
Capital reserve - realised	(20)
- unrealised	—
Revenue reserve	(18)
Total equity shareholders' funds	8,215
Net asset value per share	94.6p