

Notes to the Financial Statements

(unaudited) for the six months ended 31 March 2003

- 1 The unaudited financial statements for the six months ended 31 March 2003 have been prepared on the basis of the accounting policies set out on page 17 of the annual report for the period ended 30 September 2002.
- 2 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 14,360,695 ordinary shares, being the weighted average number of shares in issue during the period.
- 3 The unaudited financial statements for the six months ended 31 March 2003 do not constitute statutory accounts with the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The figures for the period ended 30 September 2002 have been extracted from the audited financial statements for that period, which have been delivered to the Registrar of Companies; the independent auditors' report on those financial statements under Section 235 of the Companies Act 1985 was unqualified.
- 4 Copies of this interim report have been mailed to shareholders and are available to the public at the company's registered office.

Financial Summary

	Six months ended 31 March 2003	30 weeks ended 31 March 2002
Net assets	£15,086,000	£8,215,000
Net asset value per share	95.5p	94.6p
Investment income	£287,000	£41,000
Net revenue/(loss) before tax	£158,000	£(18,000)
Revenue return/(loss) per share	0.9p	(0.7)p
Interim dividend per share	0.4p*	—
Share price at end of period	95p	95p

*paid 6 February 2003

Chairman's Statement



In spite of difficult market conditions, I am pleased to say that your company has made progress over the last six months. We have added six new venture capital investments, five of which are VCT qualifying holdings. We have also completed a public issue of new ordinary shares. I would like to take this opportunity to welcome our new investors and to thank all shareholders for their continuing support.

Net asset value

The unaudited net asset value per share at 31 March 2003 was 95.5p, down by 1.4% compared with the figure of 96.9p at 30 September 2002. During the same period the FTSE AIM index fell by 10.3% and the FTSE All Share index fell by 3.7%.

Investments

The new investments completed during the half year were:

- **Crantock Bakery** (£399,000) – supplier of premium hand-made Cornish pasties, Newquay
- **Arrow Industrial Group** (£245,000) – manufacturer of industrial doors and curtains, Hull
- **RBF Industries** (£250,000) – manufacturer of healthcare products and flexible heat shields, Southend-on-Sea
- **Longhirst Group** (£300,000) – provider of business training and conference services, Morpeth
- **Alizyme** (£119,000) – drug discovery company, Cambridge
- **Crabtree of Gateshead** (£219,000) – manufacturer of metal printing machinery, Gateshead

The majority of our investments are showing encouraging progress but under our valuation policy, based on the British Venture Capital Association's guidelines, it is too early to recognise any increase in their value. However some difficulties have been experienced with one of the operating divisions of **Horncastle Industries** and, as a result, a partial provision has been made against the investment. Latest reports indicate that the company's corrective measures are having a positive effect. Our two quoted investments, **PM Group** and **Alizyme**, are both trading comfortably above their respective issue prices.

Cash Flow Statement

(unaudited) for the six months ended 31 March 2003

	Six months ended 31 March 2003 £000	30 weeks ended 31 March 2002 £000	56 weeks ended 30 September 2002 £000
Cash flow statement			
Net cash inflow/(outflow) from operating activities	48	150	(258)
Taxation			
Corporation tax paid	—	—	—
Financial investment			
Purchase of investments	(2,157)	(280)	(9,149)
Sale/repayment of investments	1,254	—	—
Net cash outflow from financial investment	(903)	(280)	(9,149)
Equity dividends paid	(144)	—	—
Net cash outflow before use of liquid resources and financing	(999)	(130)	(9,407)
Net cash outflow from management of liquid resources	—	—	(2,867)
Financing			
Issue of redeemable preference shares	—	50	50
Issue of ordinary shares	1,830	8,687	13,975
Share issue expenses	(85)	(434)	(698)
Purchase of ordinary shares for cancellation	—	—	(13)
Redemption of preference shares	—	(50)	(50)
Net cash inflow from financing	1,745	8,253	13,264
Increase in cash at bank	746	8,123	990
Reconciliation of revenue before tax to net cash flow from operating activities			
Net revenue/(loss) before taxation	158	(18)	111
Decrease/(increase) in debtors	29	(35)	(296)
Increase in creditors	4	223	29
Management fees charged to capital reserve	(122)	(20)	(102)
Other expenses charged to capital reserve	(21)	—	—
Net cash inflow/(outflow) from operating activities	48	150	(258)
Reconciliation of movement in net funds	1 October 2002	Cash flows	31 March 2003
Cash at bank	990	746	1,736
Short-term investments	2,867	—	2,867
At end of period	3,857	746	4,603

Balance Sheet

(unaudited) as at 31 March 2003

	31 March 2003 £000	31 March 2002 £000	30 September 2002 £000
Fixed asset investments			
Venture capital investments – unlisted	2,260	280	1,138
– listed	327	—	176
Total venture capital investments	2,587	280	1,314
Listed fixed-interest investments	7,669	—	8,179
Total fixed asset investments	10,256	280	9,493
Net current assets	4,830	7,935	4,038
Net assets	15,086	8,215	13,531
Capital and reserves			
Called-up equity share capital	790	434	698
Share premium	7,959	7,819	12,566
Special reserve	6,260	—	—
Capital reserve – realised	(201)	(20)	(82)
– unrealised	204	—	344
Revenue reserve	74	(18)	5
Total equity shareholders' funds	15,086	8,215	13,531
Net asset value per share	95.5p	94.6p	96.9p

Chairman's Statement

Revenue and dividend

The revenue return per share for the half year was 0.9p, compared with a loss of 0.7p for the corresponding period to 31 March 2002. As you will recall, an interim dividend of 0.4p per share was paid on 6 February 2003 to coincide with the new share issue. It is intended that a final dividend for the year ending 30 September 2003 will be paid in February 2004.

Share issue

In January 2003 we launched new public share offers for the 2002/03 and 2003/04 tax years, with the objective of raising up to £15 million of additional capital for future investment. The outcome of the offers was disappointing, with a total of only £3 million raised despite a two-month extension of the offer period until June 2003. Market conditions were very difficult for those VCTs which sought to raise funds this year, with an estimated total of £50 million being subscribed compared to three times as much in the previous year: many investors were deterred by the state of the stock markets, and the VCT capital gains tax deferral relief has become less attractive due to a general absence of capital gains and also the effect of tapering relief on marginal CGT rates. Your directors continue to believe that VCTs offer an attractive investment opportunity as well as providing vital equity capital to young maturing companies. It is to be hoped that the Government will continue to recognise the role played by VCTs in stimulating the enterprise economy and will review and improve VCT tax reliefs for investors in the light of the reduction in capital raised in the last year.

Share price

There has been very little trading in the company's shares at this early stage in its life and the mid-market share price has remained steady at 95p. As envisaged in our original prospectus, we have now obtained Court consent to the cancellation of part of the share premium account in order to create a new special balance sheet reserve, which can be used if required to buy back the company's shares for cancellation.

Prospects

We are pleased that net assets are now in excess of £15 million but continue to believe that all shareholders would benefit from a larger fund. The directors still have authority to issue a limited number of new shares in response to demand, and when market conditions are favourable we will be open to the possibility of launching a further public offer. Meanwhile we have sufficient funds to continue to build our diversified portfolio by investing significant sums in opportunities of a reasonable size through our ability to co-invest with other funds managed by Northern Venture Managers. With encouraging signs of some recovery of interest in the smaller company sector, as evidenced by the fact that the FTSE AIM index has subsequently more than recovered the loss for the half year to 31 March 2003, and a strong deal flow, your directors look to the future of Northern 3 VCT with confidence.

John Hustler
Chairman

Statement of Total Return (incorporating the Revenue Account)

(unaudited) for the six months ended 31 March 2003

	Six months ended 31 March 2003			30 weeks ended 31 March 2002			56 weeks ended 30 September 2002		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments									
Realised on disposals	—	—	—	—	—	—	—	—	—
Unrealised revaluation movements	—	(140)	(140)	—	—	—	—	344	344
	<u>—</u>	<u>(140)</u>	<u>(140)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>344</u>	<u>344</u>
Income	287	—	287	41	—	41	269	—	269
Investment management fee	(41)	(122)	(163)	(7)	(20)	(27)	(34)	(102)	(136)
Other expenses	(88)	(21)	(109)	(52)	—	(52)	(124)	—	(124)
	<u>158</u>	<u>(283)</u>	<u>(125)</u>	<u>(18)</u>	<u>(20)</u>	<u>(38)</u>	<u>111</u>	<u>242</u>	<u>353</u>
Return/(loss) on ordinary activities before tax	158	(283)	(125)	(18)	(20)	(38)	111	242	353
Tax on ordinary activities	(31)	24	(7)	—	—	—	(22)	20	(2)
	<u>127</u>	<u>(259)</u>	<u>(132)</u>	<u>(18)</u>	<u>(20)</u>	<u>(38)</u>	<u>89</u>	<u>262</u>	<u>351</u>
Return/(loss) on ordinary activities after tax	127	(259)	(132)	(18)	(20)	(38)	89	262	351
Dividends	(58)	—	(58)	—	—	—	(84)	—	(84)
	<u>69</u>	<u>(259)</u>	<u>(190)</u>	<u>(18)</u>	<u>(20)</u>	<u>(38)</u>	<u>5</u>	<u>262</u>	<u>267</u>
Transfer to/(from) reserves	69	(259)	(190)	(18)	(20)	(38)	5	262	267
Return/(loss) per share	0.9p	(1.8)p	(0.9)p	(0.7)p	(0.7)p	(1.4)p	1.2p	3.4p	4.6p
Dividend per share	0.4p	—	0.4p	—	—	—	0.6p	—	0.6p

Directors

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2003

Northern 3 VCT PLC

Interim Report 31 March 2003

Investment Portfolio Summary

as at 31 March 2003



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Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in 2001 and managed by Northern Venture Managers. The trust invests mainly in VCT-qualifying unquoted companies, with its remaining assets invested in a portfolio of UK fixed-income securities managed by Edinburgh Fund Managers.

	Valuation £000	% of net assets by value
Venture capital investments		
Horncastle Industries	437	2.9
Crantock Bakery	399	2.6
Longhirst Group	300	2.0
Keith Prowse	280	1.9
RBF Industries	250	1.7
Arrow Industrial Group	245	1.6
Crabtree of Gateshead	219	1.4
PM Group*	205	1.4
Alizyme**	123	0.8
LiquidLogic	88	0.6
Oxonica	41	0.3
Total venture capital investments	2,587	17.2
Listed fixed-interest investments	7,669	50.8
Total fixed asset investments	10,256	68.0
Net current assets	4,830	32.0
Net assets	15,086	100.0

* Traded on the Alternative Investment Market

** Listed on the London Stock Exchange