

Northern 3 VCT PLC

Half-yearly financial report
30 September 2011



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

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	2011	2010
Net assets	£43.2m	£34.7m
Net asset value per share	93.4p	89.3p
Return per share		
Revenue	1.9p	0.7p
Capital	1.8p	0.3p
Total	3.7p	1.0p
Interim dividend declared in respect of the period	2.0p	2.0p
Cumulative return to shareholders since launch		
Net asset value per share	93.4p	89.3p
Dividends paid per share*	31.4p	26.9p
Net asset value plus dividends paid per share	124.8p	116.2p
Share price at end of period	78.1p	75.0p
Share price discount to net asset value	16.4%	16.0%

*Excluding interim dividend payable 13 January 2012

Key dates

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Half-yearly results announced

8 November 2011

Shares quoted ex dividend

7 December 2011

Interim dividend paid (to shareholders
on register on 9 December 2011)

13 January 2012

Half-yearly management report

for the six months ended 30 September 2011

Whilst the business environment for smaller UK companies continues to be challenging, many of our companies have made encouraging progress.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2011, after deducting the 2010/11 final dividend of 2.5p per share paid during the period, was 93.4p – an increase of 1.2p over the audited NAV of 92.2p as at 31 March 2011. The return per share for the period before dividends, as shown in the income statement, was 3.7p compared with 1.0p in the corresponding six month period to 30 September 2010.

Investment income for the period amounted to £1.2 million, compared with £0.6 million in the corresponding period last year. The increase was primarily due to a non-recurring receipt of £0.5 million from Promanex Group Holdings, as mentioned below. The revenue return per share rose from 0.7p to 1.9p.

The board has declared an unchanged interim dividend of 2.0p per share, which will be paid on 13 January 2012 to shareholders on the register at the close of business on 9 December 2011. It remains our objective to maintain the total annual dividend at not less than 4.5p and accordingly we would expect, subject to unforeseen circumstances, to propose a final dividend of at least 2.5p in due course.

Merger with Northern AIM VCT

In June 2011 it was announced that your directors were holding discussions with the directors of Northern AIM VCT with a view to a merger of the two companies. Detailed proposals were published during August, and on 26 September we were able to announce that, following approval of the scheme by the shareholders of both companies, the merger had been completed. The net assets of Northern AIM VCT, valued at £5.6 million, were transferred to Northern 3 VCT in exchange for the issue of 5,950,459 new Northern 3 VCT shares at a price of 93.2p per share.

I would like to welcome our new shareholders and thank both them and our existing investors for their support. Our company now has net assets of over £43 million and will continue to invest alongside Northern Venture Trust and Northern 2 VCT, the other VCTs managed by NVM Private Equity. With combined net assets of some £150 million the three funds have a substantial presence in the VCT market.

Investment portfolio

During the six months ended 30 September 2011 the company invested £988,000 in Tinglobal Holdings, a Cirencester-based supplier of refurbished mid-range computer equipment, as well as making small additional investments in two existing portfolio companies. Further investments totalling £3 million have been approved by our managers and are awaiting completion subject to due diligence.

In August the company's investment in Promanex Group Holdings, the support services and facilities management contractor, was sold to Costain Group PLC. Cash totalling £2.6 million was received at completion, comprising £2.1 million for the sale of the investment and £0.5 million of accrued investment income not previously recognised in the financial statements. The realised gain compared with the original cost of the holding was £0.4 million, a satisfactory outcome given that Promanex had experienced some difficulties during our four year period of ownership.

A further £0.6 million was received by way of deferred proceeds from the sale of DxS in September 2009.

Your directors keep the investment portfolio under close review with the managers. Whilst the business environment for smaller UK companies continues to be challenging, many of our companies have made encouraging progress.



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 2011 270,000 shares, representing 0.7% of the company's issued capital, were purchased at an average price of 78.4p per share. The share price was relatively stable during the period, ranging between a low of 75p and a high of 79.25p, with a discount of approximately 16% to NAV.

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.

Risk management

The board carries out a regular review of the risk environment in which the company operates. There has been no significant change to the key risks discussed on page 10 of the annual report for the year ended 31 March 2011.

Prospects

Events in the global economy and financial markets continue to overshadow the UK's attempted emergence from recession. There are few grounds for optimism about the future in the short to medium term and we expect conditions to remain difficult for our portfolio companies. However, many of these companies have achieved creditable results over the past six months and we will continue to support them, with further investment where necessary, as they pursue their long-term objectives. Our company has a strong balance sheet and ample funds available for further investment as opportunities arise.

On behalf of the Board

James Ferguson
Chairman

8 November 2011

Income statement

(unaudited) for the six months ended 30 September 2011

	Six months ended 30 September 2011		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	610	610
Movements in fair value of investments	–	333	333
	–	943	943
Income	1,178	–	1,178
Investment management fee	(96)	(289)	(385)
Recoverable VAT	–	–	–
Other expenses	(150)	–	(150)
Return on ordinary activities before tax	932	654	1,586
Tax on return on ordinary activities	(180)	90	(90)
Return on ordinary activities after tax	752	744	1,496
Return per share	1.9p	1.8p	3.7p
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 2011

	Six months ended 30 September 2011 £000
Equity shareholders' funds at 1 April 2011	37,428
Return on ordinary activities after tax	1,496
Dividends recognised in the period	(1,011)
Shares issued on merger	5,479
Net proceeds of share issues	–
Shares purchased for cancellation	(211)
Equity shareholders' funds at 30 September 2011	43,181

Six months ended 30 September 2010			Year ended 31 March 2011		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	477	477	–	778	778
–	(181)	(181)	–	1,361	1,361
–	296	296	–	2,139	2,139
575	–	575	1,100	–	1,100
(84)	(251)	(335)	(173)	(603)	(776)
–	–	–	25	74	99
(137)	–	(137)	(268)	–	(268)
354	45	399	684	1,610	2,294
(69)	58	(11)	(148)	147	(1)
285	103	388	536	1,757	2,293
0.7p	0.3p	1.0p	1.4p	4.5p	5.9p
0.7p	1.3p	2.0p	1.4p	3.1p	4.5p

Six months ended 30 September 2010 £000	Year ended 31 March 2011 £000
32,412	32,412
388	2,293
(780)	(1,556)
–	–
3,018	5,002
(380)	(723)
34,658	37,428

Balance sheet

(unaudited) as at 30 September 2011

	30 September 2011 £000	30 September 2010 £000	31 March 2011 £000
Fixed asset investments	36,547	28,593	33,746
Current assets			
Debtors	464	251	397
Cash and deposits	6,867	6,020	3,940
	7,331	6,271	4,337
Creditors (amounts falling due within one year)	(697)	(206)	(655)
Net current assets	6,634	6,065	3,682
Net assets	43,181	34,658	37,428
Capital and reserves			
Called-up equity share capital	2,313	1,940	2,029
Share premium	26,560	19,505	21,378
Capital redemption reserve	406	370	392
Capital reserve	11,492	13,564	12,307
Revaluation reserve	1,361	(1,321)	743
Revenue reserve	1,049	600	579
Total equity shareholders' funds	43,181	34,658	37,428
Net asset value per share	93.4p	89.3p	92.2p

Cash flow statement

(unaudited) for the six months ended 30 September 2011

	Six months ended 30 September 2011 £000	Six months ended 30 September 2010 £000	Year ended 31 March 2011 £000
Net cash inflow from operating activities	645	171	197
Taxation			
Corporation tax paid	–	–	–
Financial investment			
Purchase of investments	(2,243)	(7,108)	(12,741)
Sale/repayment of investments	5,225	1,589	4,251
Net cash inflow/(outflow) from financial investment	2,982	(5,519)	(8,490)
Acquisitions			
Cash and deposits acquired on merger	604	–	–
Equity dividends paid	(1,011)	(780)	(1,556)
Net cash inflow/(outflow) before financing	3,220	(6,128)	(9,849)
Financing			
Issue of ordinary shares	–	3,202	5,301
Share issue expenses	(82)	(184)	(299)
Purchase of ordinary shares for cancellation	(211)	(380)	(723)
Net cash (outflow)/inflow from financing	(293)	2,638	4,279
Increase/(decrease) in cash and deposits	2,927	(3,490)	(5,570)
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	1,586	399	2,294
Gain on disposal of investments	(610)	(477)	(778)
Movements in fair value of investments	(333)	181	(1,361)
(Increase)/decrease in debtors	(42)	66	(80)
Increase in creditors	44	2	122
Net cash inflow from operating activities	645	171	197
Analysis of movement in net funds	1 April 2011 £000	Cash flows £000	30 September 2011 £000
Cash and deposits	3,940	2,927	6,867

Notes to the financial statements

(unaudited) for the six months ended 30 September 2011

- 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 2011 and on 40,626,406 (2010 38,793,750) 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 2011 divided by the 46,255,261 (2010 38,790,760) ordinary shares in issue at that date.
- 4** The proposed interim dividend of 2.0p per share for the year ending 31 March 2012 will be paid on 13 January 2012 to shareholders on the register at the close of business on 9 December 2011.
- 5** The unaudited half-yearly financial statements for the six months ended 30 September 2011 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 auditors and have not been delivered to the Registrar of Companies. The figures for the year ended 31 March 2011 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditors' 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 2011.
- 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 website, www.nvm.co.uk.

Investment portfolio summary

(unaudited) as at 30 September 2011

	Cost £000	Valuation £000	% of net assets by value
Kerridge Commercial Systems	1,663	2,908	6.7
Axial Systems Holdings	1,293	1,398	3.3
IDOX*	733	1,332	3.1
Advanced Computer Software Group*	761	1,324	3.1
CloserStill Holdings	743	1,285	3.0
IG Doors	798	1,014	2.3
Kitwave One	1,000	1,000	2.3
RCC Lifesciences	995	995	2.3
Evolve Investments	995	995	2.3
Tinglobal Holdings	988	988	2.3
Andor Technology*	596	974	2.3
Paladin Group	1,013	949	2.2
Control Risks Group Holdings	746	896	2.1
Wear Inns	839	839	1.9
Cawood Scientific	825	825	1.9
Fifteen largest venture capital investments	13,988	17,722	41.1
Other venture capital investments	11,913	9,419	21.8
Total venture capital investments	25,901	27,141	62.9
Listed equity investments	4,966	5,200	12.0
Listed fixed-interest investments	4,255	4,206	9.7
Total fixed asset investments	35,122	36,547	84.6
Net current assets		6,634	15.4
Net assets		43,181	100.0

*Quoted on AIM

Directors

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