

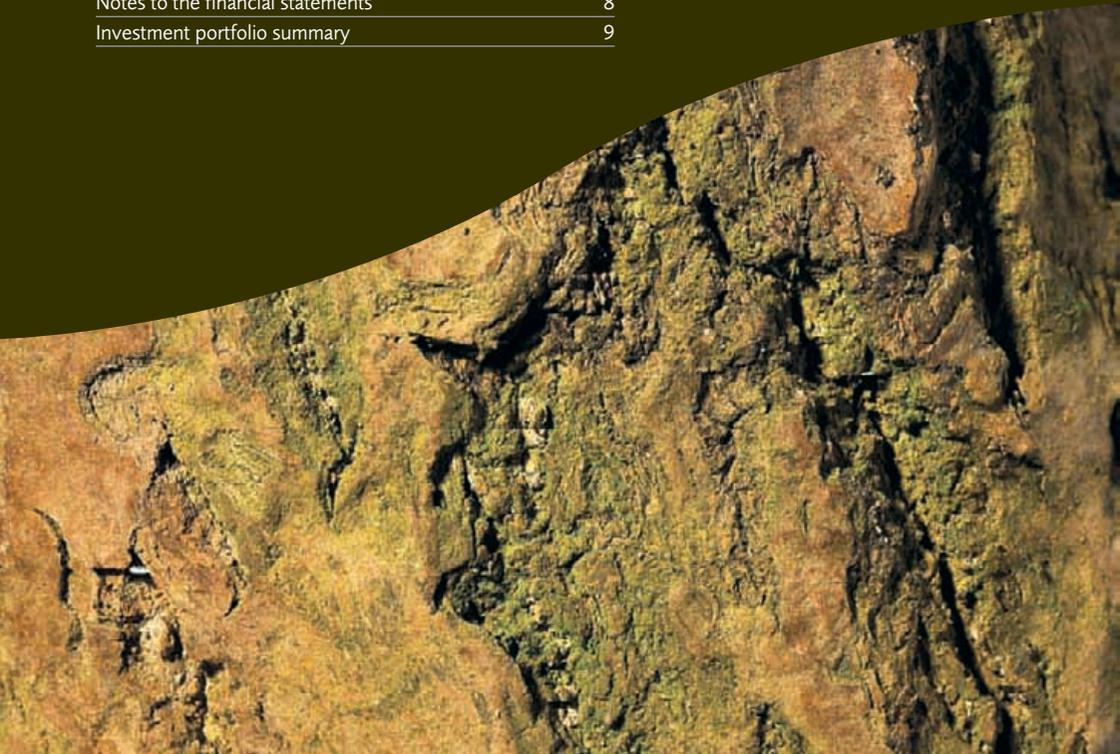
2008

Northern 3
VCT PLC

Half-yearly Financial Report
30 September 2008

Northern 3 VCT 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	2008	2007
Net assets	£24.9m	£29.5m
Net asset value per share	86.1p	97.9p
Return per share		
Revenue	1.5p	1.5p
Capital	(11.8)p	1.4p
Total	(10.3)p	2.9p
Interim dividend per share in respect of the period		
Revenue	1.4p	1.4p
Capital	0.6p	0.6p
Total	2.0p	2.0p
Cumulative return to shareholders since launch		
Net asset value per share	86.1p	97.9p
Dividends paid per share*	18.9p	14.9p
Net asset value plus dividends paid per share	105.0p	112.8p
Share price at end of period	85.5p	85.0p

*Excluding proposed interim dividend

Key dates

Half-yearly results announced

5 November 2008

Shares quoted ex dividend

10 December 2008

Interim dividend paid (to shareholders on register on 12 December 2008)

16 January 2009

Half-yearly Management Report

The period since the publication of the company's last annual report in May 2008 has seen a dramatic deterioration in the state of the world's financial markets, principally due to the unprecedented problems within the banking system. Short-term inflationary pressures have combined with the instability of the markets to create a very difficult trading environment for the smaller unquoted companies in the UK which represent the mainstream of our investment activity, and which in many cases are experiencing pressure from their bankers to cope with reduced facilities.

Results

The unaudited net asset value per share at 30 September 2008 was 86.1p, a fall of 10.6% from the audited figure of 96.3p at 31 March 2008. Over the same period the FTSE All-Share index fell by 15.1%. The return per share for the half year was minus 10.3p, compared with a positive return of 2.9p in the corresponding period last year. The cumulative return to shareholders (net asset value plus dividends paid since launch) is 105.0p compared with 112.8p 12 months ago.

The revenue return per share for the half year was unchanged at 1.5p, with a fall in investment income counter-balanced by the exceptional VAT credit referred to below.

The board has declared an unchanged interim dividend of 2.0p per share, comprising a revenue dividend of 1.4p and a capital dividend of 0.6p. The interim dividend will be paid on 16 January 2009 to shareholders on the register at the close of business on 12 December 2008.

Investment portfolio

New investment activity in the half year was at a relatively low level, reflecting the increasingly difficult market conditions. Two new venture capital investments totalling £1.2 million were completed:

- **Advanced Computer Software** (£429,000) – AIM-quoted developer of computer software for the healthcare market, London
- **CloserStill Holdings** (£743,000) – holding company for business-to-business exhibition promoters, London

Small additional investments were made in **Britspace Holdings** and the AIM-quoted **IS Pharma** (formerly known as **Maelor**).

In May 2008 **Product Support (Holdings)** was acquired by Wincanton plc in an all-cash deal from which our company realised £2.0 million from an original investment of £1.0 million, with the possibility of a small further payment to come depending on future performance.

The deterioration in the UK economy has inevitably affected a number of portfolio companies, and the directors' valuation of the unquoted holdings reflects not only trends in profitability but also the general reduction in price-earnings ratios reported in the stock market. In the current climate we believe it is more important than ever to take a conservative view of fair value and several of our investments have been written down to reflect this. The AIM-quoted part of the portfolio has also fallen in value, with the FTSE AIM index down by over 35% during the half year.

It is likely that some of our companies will need further funding to see them through the current downturn, and with the clearing banks seeking to limit their exposure it can be expected that these companies will look to their venture capital backers to provide the bulk of any additional requirement. This may lead to some difficult decisions having to be taken, but where we have a positive view of the quality of management and the strength of future prospects we will be prepared to consider further investment.

Against a background of fluctuations in the corporate bond markets, the portfolio of listed fixed-interest investments managed by Sarasin & Partners LLP was showing an unrealised revaluation deficit of £390,000 at 30 September 2008, equivalent to approximately 1.4p per share. It remains our intention to hold most of these stocks to maturity and at this stage we do not expect to realise any significant losses.

Shareholder issues

Following a review of corporate broking arrangements, Landsbanki Securities (formerly Teather & Greenwood) were appointed as brokers to Northern 3 VCT in 2007. They commenced making a market in Northern 3 VCT's shares and

assisted the company in implementing its share buy-back policy. However Landsbanki Securities was adversely affected by the recent well-publicised financial difficulties of its parent group and went into administration in October 2008, as a result of which the firm ceased its market-making activities. There is currently only one remaining market-maker in Northern 3 VCT's shares and the quoted share price has fallen substantially, not helped by the company's inability to deal in its own shares in the close period leading up to the announcement of these half-yearly results.

Your directors understand that a successor firm to Landsbanki Securities, now known as Teathers, expects to resume normal activities imminently under new corporate ownership. We are awaiting confirmation of this before deciding whether to make alternative corporate broking arrangements, and would like to reassure shareholders that the restoration of an orderly market in the company's shares is being given the highest priority.

During the six months to 30 September 2008 the company bought back for cancellation 894,966 shares, representing approximately 3.0% of the issued capital. The directors are considering the possibility of launching a small "top-up" issue of new ordinary shares in the first quarter of 2009 in response to enquiries from shareholders wishing to make a further investment in the company. An announcement concerning this will be made in due course.

VAT on management fees

The Government announced in the 2008 Budget that, with effect from 1 October 2008, investment management fees paid by VCTs would be exempt from VAT. HM Revenue & Customs has subsequently accepted that under European Union VAT law this exemption should have applied from 1 January 1990 onwards, and has indicated that claims may be made for repayment of VAT previously paid by VCTs on management fees, subject to certain restrictive time limits.

At this stage the directors are reasonably certain that the amount of VAT recoverable by Northern 3 VCT will be at least £300,000 and an asset of this amount has been recognised in the half-yearly accounts as an exceptional credit in the income statement.

VCT qualifying status

The directors are pleased to report that the company has continued to satisfy HM Revenue & Customs' conditions for the maintenance of approved venture capital trust status. Our managers continue to monitor the position closely with the help of our taxation advisers at PricewaterhouseCoopers LLP.

Board of directors

I would like to take this opportunity to remind shareholders that I will be standing down as chairman of the company in January 2009 and that the directors have invited James Ferguson to become chairman in my place. I will continue to serve as a director and look forward to working with James and our board colleagues in what will undoubtedly be a challenging period ahead.

Prospects

Although the financial markets have shown some signs of stabilising during recent weeks, the outlook for the UK economy appears gloomy for the foreseeable future. This will have an impact on the performance of our investment portfolio in the short to medium term, notwithstanding that in recent months our overall asset value has held up well by comparison with stock market indices. The company's balance sheet is sound and we have a good reserve of liquidity which will enable us to take advantage of new investment opportunities on a highly selective basis, as well as providing further support to existing investee companies where this is justified by future prospects.

It remains our long-term objective to increase the company's net asset value whilst maintaining a progressive dividend policy through the distribution of both revenue and realised capital gains. This should assist in the development of a more active secondary market in the company's shares. Given the current outlook for the UK economy our managers believe that realisation activity is likely to be subdued for the foreseeable future, and accordingly we will take a prudent approach to the use of our liquid resources.

On behalf of the Board

John Hustler
Chairman

5 November 2008

Income Statement

(unaudited) for the six months ended 30 September 2008

	Six months ended 30 September 2008		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	458	458
Movements in fair value of investments	–	(3,917)	(3,917)
	–	(3,459)	(3,459)
Income	686	–	686
Investment management fee	(78)	(234)	(312)
Recoverable VAT	72	228	300
Other expenses	(109)	–	(109)
Return on ordinary activities before tax	571	(3,465)	(2,894)
Tax on return on ordinary activities	(128)	–	(128)
Return on ordinary activities after tax	443	(3,465)	(3,022)
Return per share	1.5p	(11.8)p	(10.3)p

- 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 2008

	Six months ended 30 September 2008 £000
Equity shareholders' funds at 1 April 2008	28,645
Return on ordinary activities after tax	(3,022)
Dividends recognised in the period	3
Net proceeds of share issues	–
Shares purchased for cancellation	(772)
Expenses charged to capital reserve	–
Equity shareholders' funds at 30 September 2008	24,854

Six months ended 30 September 2007			18 months ended 31 March 2008		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	427	427	–	85	85
–	173	173	–	1,969	1,969
–	600	600	–	2,054	2,054
799	–	799	2,228	–	2,228
(87)	(260)	(347)	(259)	(903)	(1,162)
–	–	–	–	–	–
(101)	–	(101)	(295)	–	(295)
611	340	951	1,674	1,151	2,825
(167)	84	(83)	(441)	271	(170)
444	424	868	1,233	1,422	2,655
1.5p	1.4p	2.9p	4.1p	4.7p	8.8p

Six months ended 30 September 2007 £000	18 months ended 31 March 2008 £000
29,492	29,281
868	2,655
(603)	(2,418)
69	287
(304)	(1,142)
(18)	(18)
29,504	28,645

Balance Sheet

(unaudited) as at 30 September 2008

	30 September 2008 £000	30 September 2007 £000	31 March 2008 £000
Fixed asset investments			
Venture capital investments			
Unquoted	13,778	16,089	17,852
Quoted	1,910	2,487	1,851
Total venture capital investments	15,688	18,576	19,703
Listed fixed-interest investments	7,423	9,382	7,497
Total fixed asset investments	23,111	27,958	27,200
Current assets			
Debtors	566	463	265
Cash at bank	1,385	1,250	1,526
	1,951	1,713	1,791
Creditors (amounts falling due within one year)	(208)	(167)	(346)
Net current assets	1,743	1,546	1,445
Net assets	24,854	29,504	28,645
Capital and reserves			
Called-up equity share capital	1,443	1,506	1,487
Share premium	8,031	7,893	8,031
Capital redemption reserve	188	116	143
Capital reserve – realised	15,779	17,413	15,997
Capital reserve – unrealised	(1,270)	1,847	2,749
Revenue reserve	683	729	238
Total equity shareholders' funds	24,854	29,504	28,645
Net asset value per share	86.1p	97.9p	96.3p

Cash Flow Statement

(unaudited) for the six months ended 30 September 2008

	Six months ended 30 September 2008 £000	Six months ended 30 September 2007 £000	18 months ended 31 March 2008 £000
Net cash inflow from operating activities	113	295	1,206
Taxation			
Corporation tax paid	(115)	–	(105)
Financial investment			
Purchase of investments	(4,246)	(7,077)	(16,041)
Sale/repayment of investments	4,876	7,018	16,133
Net cash inflow/(outflow) from financial investment	630	(59)	92
Equity dividends paid	3	(603)	(2,418)
Net cash inflow/(outflow) before financing	631	(367)	(1,225)
Financing			
Issue of ordinary shares	–	74	293
Share issue expenses	–	(5)	(6)
Purchase of ordinary shares for cancellation	(772)	(304)	(1,142)
Net cash outflow from financing	(772)	(235)	(855)
Decrease in cash at bank	(141)	(602)	(2,080)
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	(2,894)	951	2,825
Gain on disposal of investments	(458)	(427)	(85)
Movements in fair value of investments	3,917	(173)	(1,969)
(Increase)/decrease in debtors	(301)	(33)	335
Increase/(decrease) in creditors	(151)	(5)	118
Expenses charged to capital reserve	–	(18)	(18)
Net cash inflow from operating activities	113	295	1,206
Analysis of movement in net funds	1 April 2008 £000	Cash flows £000	30 September 2008 £000
Cash at bank	1,526	(141)	1,385

Notes to the Financial Statements

(unaudited) for the six months ended 30 September 2008

- 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 December 2005, 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 2008 and on 29,376,116 (2007 30,477,836) 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 2008 divided by the 28,854,122 (2007 30,130,179) ordinary shares in issue at that date.
- 4 The proposed interim dividend of 2.0p per share for the year ending 31 March 2009 will be paid on 16 January 2009 to shareholders on the register at the close of business on 12 December 2008.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2008 do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The figures for the 18 months ended 31 March 2008 have been extracted from the 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. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the financial statements for the 18 months ended 31 March 2008.
- 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 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 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.

Investment Portfolio Summary

(unaudited) as at 30 September 2008

	Cost £000	Valuation £000	% of net assets by value
Pivotal Laboratories Holdings	679	1,045	4.2
Paladin Group	860	1,038	4.2
Optilan Group	1,000	1,000	4.0
Axial Systems Holdings	1,000	1,000	4.0
Envirotec	456	867	3.5
Promanex Group Holdings	1,000	750	3.0
CloserStill Holdings	743	743	3.0
DxS	325	615	2.5
Promatic Group	568	568	2.3
Frontier Foods	542	542	2.2
Crantock Bakery	442	522	2.1
Abermed	375	502	2.0
Astbury Marsden Holdings	1,000	500	2.0
Britspace Holdings	588	473	1.9
Arleigh International	210	473	1.9
Fifteen largest venture capital investments	9,788	10,638	42.8
Other venture capital investments	7,170	5,050	20.3
Total venture capital investments	16,958	15,688	63.1
Listed fixed-interest investments	7,813	7,423	29.9
Total fixed asset investments	24,771	23,111	93.0
Net current assets		1,743	7.0
Net assets		24,854	100.0

Company Information

Directors

John Hustler (Chairman)
James Ferguson
Chris Fleetwood
Tim Levett
John Waddell

Secretary

Christopher Mellor FCA MSI

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