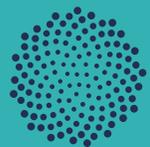


# Northern 3 VCT PLC

Half-Yearly Financial Report  
30 September 2023



Northern VCTs



# Welcome

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management Limited.

It invests mainly in unquoted venture capital holdings and aims to provide long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

For additional information visit  
our investor area online  
[www.mercia.co.uk/vcts/](http://www.mercia.co.uk/vcts/)

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# Financial summary

	Six months ended 30 September 2023	Six months ended 30 September 2022	Year ended 31 March 2023
<b>Net assets</b>	<b>£116.0m</b>	<b>£115.3m</b>	<b>£113.0m</b>
<b>Net asset value per share</b>	<b>90.0p</b>	<b>92.0p</b>	<b>91.6p</b>
<b>Return per share</b>			
Revenue	0.5p	(0.2)p	(0.1)p
Capital	0.4p	(2.9)p	(1.5)p
<b>Total</b>	<b>0.9p</b>	<b>(3.1)p</b>	<b>(1.6)p</b>
<b>Dividend declared in respect of the period</b>	<b>2.0p</b>	<b>2.0p</b>	<b>4.5p</b>
<b>Cumulative return to shareholders since launch</b>			
Net asset value per share	90.0p	92.0p	91.6p
Dividends paid per share*	115.9p	111.4p	113.4p
<b>Net asset value plus dividends paid per share</b>	<b>205.9p</b>	<b>203.4p</b>	<b>205.0p</b>
<b>Mid-market share price at end of period</b>	<b>85.0p</b>	<b>88.5p</b>	<b>84.5p</b>
<b>Share price discount to net asset value</b>	<b>5.6%</b>	<b>3.8%</b>	<b>7.8%</b>
<b>Tax-free dividend yield (based on net asset value per share)**</b>	<b>4.9%</b>	<b>4.7%</b>	<b>4.6%</b>

\* Excluding interim dividend not yet paid.

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

## Key dates

**23** November  
2023

Half-yearly results announced

**14** December  
2023

Shares quoted ex dividend

**17** January  
2024

Interim dividend paid  
(to shareholders on register  
on 15 December 2023)



**James Ferguson**  
Chairman

# Half-yearly management report

for the six months ended 30 September 2023

Over the past six months, the UK economy has faced numerous challenges including high inflation, stagnant growth and supply-side shocks. Despite this backdrop, your Company has continued to provide much needed investment into early stage companies, support for its existing portfolio companies, and achieve returns through realisations.

## Venture capital investment activity and portfolio update

The macroeconomic climate continues to provide challenges to portfolio companies, with inflation, geopolitical instability, and rising interest rates all generating significant headwinds for UK economic growth.

Despite this backdrop, we are pleased to report that a number of the Company's venture investments have performed well over the period, reflected by the increase in the Board's assessment of the valuation of the unquoted portfolio. Where portfolio companies have struggled or are at risk of failure, valuations have also been adjusted to reflect the Board's current assessment. The listed AIM portfolio has stabilised following a decline in the previous financial year.

During the period the Investment Manager sold the Company's holding in a recent early stage investment, Evotix, for initial net proceeds of £11.4 million, representing 4.6 times return on the original cost, and one of its listed holdings, Adept Telecom plc, for net proceeds of £0.3 million, representing 1.4 times return on cost. The total proceeds of portfolio investments sold during the period totalled £12.1 million, 4.5 times the initial cost invested of £2.7 million.

One positive of the increased interest rate environment is the yield that is achievable on uninvested cash balances; as at 30 September the blended rate achieved on uninvested cash was 4.5%.

The cash generated from investment disposals, in combination with the proceeds from the 2022/23 £6.0 million public share offer, has resulted in your Company being well positioned to pursue new opportunities to support small and medium businesses and to work with existing portfolio companies to finance their growth plans. Investment activity has increased versus the same period in 2022, with £5.1 million invested across seven investee companies.

## Results and dividend

The unaudited net asset value (NAV) per share on 30 September 2023 was 90.0 pence (91.6 pence (audited) on 31 March 2023) and is stated after deducting the final dividend of 2.5 pence per share in respect of the 2022/23 financial year, which was paid in August 2023. The return per share as shown in the income statement for the six months ended 30 September 2023 was 0.9 pence, primarily as a result of an unrealised gain of £0.9 million driven by commercial traction in several portfolio companies.

Investment income increased to £1,181,000 from £274,000 during the same period last year, reflecting the increased interest rates and resulting higher returns on the Company's cash reserves.

The Board has declared an unchanged interim dividend for the year ending 31 March 2024 of 2.0 pence per share, which will be paid on 17 January 2024 to shareholders who are on the register on 15 December 2023. It remains the Board's objective to pay a dividend at least equivalent to 4.5% of the opening NAV in each year.

## Shareholder issues

As a result of the public share offer launched in January 2023, 6,597,040 new ordinary shares were issued in April 2023. The Company's dividend investment scheme, which enables shareholders to invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate, with around 12% of total dividends reinvested by shareholders during the period.

The Company's Investment Manager continues to experience a sustained demand for long-term growth capital for smaller companies in the UK. In order to continue to support the Company's existing portfolio and invest in new early stage opportunities, a fundraising process is currently underway in conjunction with the other Northern VCTs. Full details of how to participate in the fund raise is available on the Company's website at <http://www.mercia.co.uk/vcts/>.

The Board has maintained its policy of being willing to buy back the Company's shares in the market when necessary in order to maintain liquidity, at a 5% discount to NAV. During the period, a total of 1,431,889 shares were repurchased for cancellation, equivalent to approximately 1.2% of the opening share capital.

## Change of registrar

We are pleased to report that from close of business on 10 November 2023 the Company changed its registrar to The City Partnership (UK) Limited ("City"). You will receive a letter confirming this change, and should you need to contact City, contact details may be found on page 12.

## VCT qualifying status and legislation

The Company has continued to meet the stringent qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The Investment Manager monitors the position closely and reports regularly to the Board. Philip Hare & Associates LLP has continued to act as independent adviser to the Company on VCT taxation matters.

The 2025 'sunset clause' was a European state aid requirement that was introduced when the VCT scheme received state aid approval, which meant that without small change in legislation investors would not receive upfront tax relief when investing in VCTs after this date. We were pleased to receive the news on 22nd November 2023 that the Sunset Clause will be extended by 10 years to 2035 in the Autumn Finance Bill 2023.

## Outlook

While macroeconomic conditions remain challenging, the unquoted venture portfolio remains resilient and the Company is well capitalised, which will enable the existing portfolio to be supported as necessary. Your Company is invested in a diversified portfolio of businesses with prospects in which we continue to remain confident.

On behalf of the Board

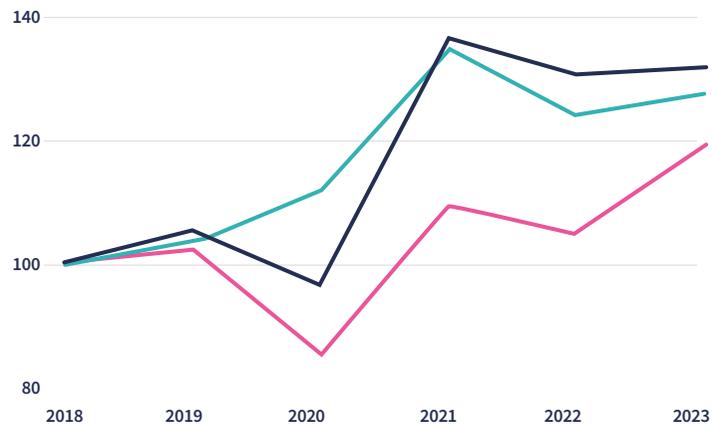
**James Ferguson**  
Chairman

# Five-year performance



## Comparative return to shareholders (assuming dividends re-invested)

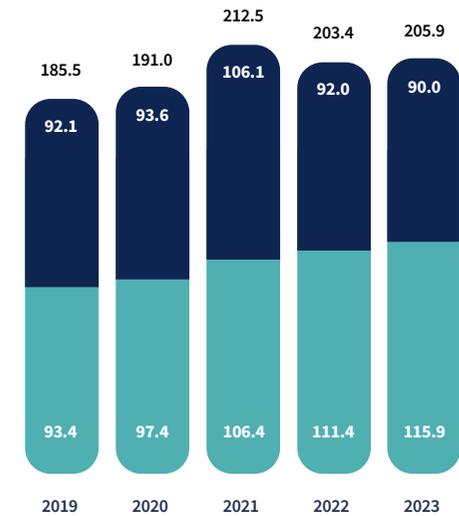
Five years to 30 September 2023 (30 September 2018 = 100)



- Northern 3 VCT NAV total return
- Northern 3 VCT share price total return
- UK equity market index total return

## Net asset value and cumulative dividends per share

As at 30 September (pence per share)



- Net asset value per share
- Cumulative dividends paid since launch

# Investment portfolio

(Unaudited) as at 30 September 2023

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments</b>			
Grip-UK (t/a Climbing Hangar)	3,492	3,492	3.0
Volumatic Holdings	216	3,037	2.6
IDOX*	530	2,771	2.4
Tutora (t/a Tutorful)	2,449	2,584	2.2
Gentronix	805	2,528	2.2
Pure Pet Food	1,601	2,457	2.1
Project Glow Topco (t/a Currentbody.com)	1,519	2,372	2.0
Newcells Biotech	2,229	2,364	2.0
Netacea	2,244	2,262	2.0
Rockar	1,660	2,200	1.9
Adludio	1,950	1,950	1.7
Biological Preparations Group	1,915	1,940	1.7
Forensic Analytics	1,869	1,869	1.6
Clarilis	1,772	1,772	1.6
Turbine Simulated Cell Technologies Ltd	1,542	1,744	1.5
<b>Fifteen largest venture capital investments</b>	<b>25,793</b>	<b>35,342</b>	<b>30.5</b>
Other venture capital investments	47,471	33,201	28.6
<b>Total venture capital investments</b>	<b>73,264</b>	<b>68,543</b>	<b>59.1</b>
Listed equity investments	10,365	11,717	10.1
<b>Total fixed asset investments</b>	<b>83,629</b>	<b>80,260</b>	<b>69.2</b>
Net current assets		35,761	30.8
<b>Net assets</b>		<b>116,021</b>	<b>100.0</b>

\* Quoted on AIM



# Income statement

## (Unaudited) for the six months ended 30 September 2023

	Six months ended 30 September 2023			Six months ended 30 September 2022			Year ended 31 March 2023		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>Gain on disposal of investments</b>	-	544	544	-	503	503	-	1,414	1,414
<b>Movements in fair value of investments</b>	-	897	897	-	(3,411)	(3,411)	-	(1,540)	(1,540)
	-	1,441	1,441	-	(2,908)	(2,908)	-	(126)	(126)
Dividend and interest income	1,181	-	1,181	274	-	274	732	-	732
Investment management fee	(266)	(797)	(1,063)	(256)	(769)	(1,025)	(519)	(1,558)	(2,077)
Other expenses	(315)	-	(315)	(226)	-	(226)	(496)	-	(496)
<b>Return before tax</b>	<b>600</b>	<b>644</b>	<b>1,244</b>	(208)	(3,677)	(3,885)	(283)	(1,684)	(1,967)
Tax on return	82	(82)	-	-	-	-	122	(122)	-
<b>Return after tax</b>	<b>682</b>	<b>562</b>	<b>1,244</b>	(208)	(3,677)	(3,885)	(161)	(1,806)	(1,967)
<b>Return per share</b>	<b>0.5p</b>	<b>0.4p</b>	<b>0.9p</b>	(0.2)p	(2.9)p	(3.1)p	(0.1)p	(1.5)p	(1.6)p

- 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 July 2022 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 above statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.

# Balance sheet

(Unaudited) as at 30 September 2023

	30 September 2023 £000	30 September 2022 £000	31 March 2023 £000
<b>Fixed assets</b>			
Investments	80,260	80,284	85,775
<b>Current assets</b>			
Debtors	383	73	107
Cash and cash equivalents	35,517	35,026	27,280
	35,900	35,099	27,387
<b>Creditors (amounts falling due within one year)</b>	(139)	(88)	(169)
<b>Net current assets</b>	35,761	35,011	27,218
<b>Net assets</b>	116,021	115,295	112,993
<b>Capital and reserves</b>			
Called-up equity share capital	6,447	6,258	6,166
Share premium	43,240	37,077	37,344
Capital redemption reserve	843	653	771
Capital reserve	67,581	64,498	63,561
Revaluation reserve	(3,369)	6,259	4,554
Revenue reserve	1,279	550	597
<b>Total equity shareholders' funds</b>	116,021	115,295	112,993
<b>Net asset value per share</b>	90.0p	92.0p	91.6p

# Statement of changes in equity

## (Unaudited) for the six months ended 30 September 2023

	Non-distributable reserves				Distributable reserves		Total £000
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	
<b>At 1 April 2023</b>	<b>6,166</b>	<b>37,344</b>	<b>771</b>	<b>4,554</b>	<b>63,561</b>	<b>597</b>	<b>112,993</b>
Return after tax	-	-	-	(7,923)	8,485	682	1,244
Dividends paid	-	-	-	-	(3,229)	-	(3,229)
Net proceeds of share issues	353	5,896	-	-	-	-	6,249
Shares purchased for cancellation	(72)	-	72	-	(1,236)	-	(1,236)
<b>At 30 September 2023</b>	<b>6,447</b>	<b>43,240</b>	<b>843</b>	<b>(3,369)</b>	<b>67,581</b>	<b>1,279</b>	<b>116,021</b>
<b>Six months ended 30 September 2022</b>							
<b>At 1 April 2022</b>	<b>5,456</b>	<b>20,909</b>	<b>602</b>	<b>13,659</b>	<b>64,849</b>	<b>1,385</b>	<b>106,860</b>
Return after tax	-	-	-	(7,400)	3,723	(208)	(3,885)
Dividends paid	-	-	-	-	(3,133)	(627)	(3,760)
Net proceeds of share issues	853	16,168	-	-	-	-	17,021
Shares purchased for cancellation	(51)	-	51	-	(941)	-	(941)
<b>At 30 September 2022</b>	<b>6,258</b>	<b>37,077</b>	<b>653</b>	<b>6,259</b>	<b>64,498</b>	<b>550</b>	<b>115,295</b>
<b>Year ended 31 March 2023</b>							
<b>At 1 April 2022</b>	<b>5,456</b>	<b>20,909</b>	<b>602</b>	<b>13,659</b>	<b>64,849</b>	<b>1,385</b>	<b>106,860</b>
Return after tax	-	-	-	(9,105)	7,299	(161)	(1,967)
Dividends paid	-	-	-	-	(5,614)	(627)	(6,241)
Net proceeds of share issues	879	16,435	-	-	-	-	17,314
Shares purchased for cancellation	(169)	-	169	-	(2,973)	-	(2,973)
<b>At 31 March 2023</b>	<b>6,166</b>	<b>37,344</b>	<b>771</b>	<b>4,554</b>	<b>63,561</b>	<b>597</b>	<b>112,993</b>

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

# Statement of cash flows

**(Unaudited) for the six months ended 30 September 2023**

	Six months ended 30 September 2023 £000	Six months ended 30 September 2022 £000	Year ended 31 March 2023 £000
<b>Cash flows from operating activities</b>			
Return before tax	1,244	(3,885)	(1,967)
Adjustments for:			
Gain on disposal of investments	(544)	(503)	(1,414)
Movements in fair value of investments	(897)	3,411	1,540
(Increase)/decrease in debtors	(276)	(13)	(47)
(Decrease)/increase in creditors	(30)	(64)	17
<b>Net cash outflow from operating activities</b>	<b>(503)</b>	<b>(1,054)</b>	<b>(1,871)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	(7,099)	(5,379)	(17,699)
Sale/repayment of investments	14,055	7,456	17,067
<b>Net cash inflow/(outflow) from investing activities</b>	<b>6,956</b>	<b>2,077</b>	<b>(632)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	6,412	17,037	17,815
Share issue expenses	(163)	(16)	(501)
Purchase of ordinary shares for cancellation	(1,236)	(941)	(2,973)
Equity dividends paid	(3,229)	(3,760)	(6,241)
<b>Net cash inflow from financing activities</b>	<b>1,784</b>	<b>12,320</b>	<b>8,100</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,237</b>	<b>13,343</b>	<b>5,597</b>
Cash and cash equivalents at beginning of period	27,280	21,683	21,683
<b>Cash and cash equivalents at end of period</b>	<b>35,517</b>	<b>35,026</b>	<b>27,280</b>

# Notes to the financial statements

(unaudited) for the six months ended 30 September 2023

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 July 2022 by the Association of Investment Companies (“AIC SORP”).
2. The calculation of return per share is based on the return after tax for the six months ended 30 September 2023 and on 129,549,622 (30 September 2022: 125,359,671) 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 2023 divided by the 128,947,037 (30 September 2022: 125,305,351) ordinary shares in issue at that date.
4. The interim dividend of 2.0 pence per share for the year ending 31 March 2024 will be paid on 17 January 2024 to shareholders on the register on 15 December 2023.
5. The unaudited half-yearly financial statements for the six months ended 30 September 2023 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 2023 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 2023.
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 are available to the public at the Company’s registered office, and on the Company’s website.

# Risk management

The Board carries out a regular and robust assessment of the risk environment in which the Company operates and seeks to identify new risks as they emerge. The principal and emerging 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:

## Risk

**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.

**Financial risk:** most of the Company's investments involve a medium to long-term commitment and many are illiquid.

**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. The level of economic risk has been elevated most recently by inflationary pressures and interest rate increases.

## 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 rules of the VCT scheme. The Board reviews the investment portfolio with the investment manager on a regular basis.

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.

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 it is appropriate and in the interests of the Company to do so. The manager typically provides an investment executive to actively support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

# Risk management (continued)

Risk	Mitigation
<p><b>Stock market risk:</b> some of the Company's investments are quoted on AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity, political activity or global health crises, 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.</p>	<p>The Company's quoted investments are actively managed by specialist managers, including Mercia in the case of the AIM-quoted investments, and the Board keeps the portfolio and the actions taken under ongoing review.</p>
<p><b>Credit risk:</b> the Company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment.</p>	<p>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.</p>
<p><b>Legislative and regulatory risk:</b> in order to maintain its approval as a VCT, the Company is required to comply with current VCT legislation in the UK. Changes to UK legislation in the future could have an adverse effect on the Company's ability to achieve satisfactory investment returns whilst retaining its VCT approval.</p>	<p>The Board and the investment manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.</p>
<p><b>Internal control risk:</b> the Company's assets could be at risk in the absence of an appropriate internal control regime which is able to operate effectively even during times of disruption.</p>	<p>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.</p>
<p><b>VCT qualifying status risk:</b> 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.</p>	<p>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 &amp; Associates LLP to undertake an independent VCT status monitoring role.</p>

## Company information

### Directors

James Ferguson (Chairman)  
Anna Brown  
Chris Fleetwood  
Tim Levett  
John Waddell

### Secretary

Mercia Company Secretarial Services Limited

### Registered office

Forward House  
17 High Street  
Henley-in-Arden B95 5AA  
0330 223 1430

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### Investment manager

Mercia Fund Management Limited  
Forward House  
17 High Street  
Henley-in-Arden B95 5AA

### Registrars

The City Partnership (UK) Limited  
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[www.mercia.co.uk/vcts/n3vct/](http://www.mercia.co.uk/vcts/n3vct/)