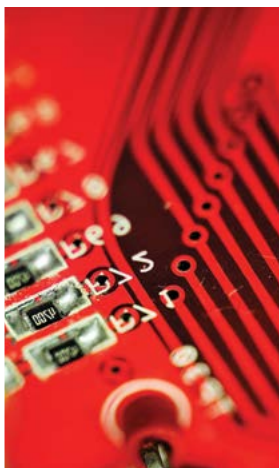


# Northern 3 VCT PLC

Half-yearly financial report

30 September 2016



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

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 2016	Six months ended 30 September 2015	Year ended 31 March 2016
<b>Net assets</b>	<b>£70.6m</b>	£66.3m	£67.0m
<b>Net asset value per share</b>	<b>107.1p</b>	100.7p	102.2p
<b>Return per share</b>			
Revenue	1.2p	1.1p	2.1p
Capital	12.3p	5.8p	8.3p
Total	13.5p	6.9p	10.4p
<b>Dividend declared in respect of the period*</b>	<b>2.0p</b>	2.0p	10.5p
<b>Cumulative return to shareholders since launch</b>			
Net asset value per share	107.1p	100.7p	102.2p
Dividends paid per share**	73.4p	62.9p	64.9p
Net asset value plus dividends paid per share	180.5p	163.6p	167.1p
<b>Mid-market share price at end of period</b>	<b>91.5p</b>	90.0p	95.75p
<b>Share price discount to net asset value</b>	<b>14.6%</b>	10.6%	6.3%
<b>Tax-free dividend yield (based on mid-market share price)</b>			
Including special dividend	N/A	N/A	11.0%
Excluding special dividend	6.0%	6.1%	5.7%

\*Year ended 31 March 2016 includes 5.0p special dividend \*\*Excluding interim dividend not yet paid

## Key dates

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Half-yearly results announced

14 November 2016

Shares quoted ex dividend

5 January 2017

Interim dividend paid (to shareholders on register on 6 January 2017)

27 January 2017

# Half-yearly management report

for the six months ended 30 September 2016

*We are cautiously optimistic about our company's prospects.*

## Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2016 was 107.1 pence (31 March 2016 (audited) 102.2 pence). The September figure is stated after deducting the second interim and final dividends totalling 8.5 pence per share in respect of the year ended 31 March 2016, which were paid in July 2016. The second interim dividend of 5.0 pence was a special payment, reflecting the high level of successful exits achieved from portfolio companies.

The directors have declared an unchanged interim dividend of 2.0 pence per share, which will be paid on 27 January 2017 to shareholders on the register at the close of business on 6 January 2017. The return per share for the half year as shown in the income statement, before deducting the dividend, was 13.5 pence, compared with 6.9 pence in the six month period ended 30 September 2015.

## Investment portfolio

Six new holdings in VCT-qualifying unquoted companies were acquired during the period at a cost of £4.7 million, as follows:

- **Myparceldelivery Holdings** (£761,000) – parcel delivery comparison website, Manchester
- **Lending Works** (£608,000) – peer-to-peer lending platform, London
- **AVID Technology Group** (£632,000) – electrification and intelligent control of engine ancillaries, thermal management systems and hybrid systems, Cramlington
- **Rockar** (£773,000) – innovative motor vehicle retailer, York
- **Customs Connect Group** (£1,243,000) – import duty consultancy, Manchester
- **Channel Mum** (£644,000) – online multi-channel video blog community network for parents of young children, London

Proceeds from investment sales and repayments amounted to £3.3 million, producing a gain of £0.4 million over 31 March 2016 carrying values. Our investment in Silverwing was sold to the Canadian inspection technology group Eddyfi for £2.2 million and the Arleigh Group holding was sold to the NASDAQ-listed LKQ Corporation, trading in the UK as Euro Car Parts, for £0.8 million.

The venture capital portfolio has generally made satisfactory progress. Particularly strong performances by Entertainment Magpie Group and Optilan Group led to substantial increases in their valuation. In the AIM-quoted portfolio, the share price of Gear4music (Holdings) more than doubled over the half year and we have subsequently taken some profits.

## Share issues and buy-backs

The company's last significant fund-raising took place during the 2013/14 tax year. Over the past three years there has been a strong flow of cash from investment realisations, which has helped to finance new investment activity as well as enabling us to pay substantial dividends. Having reviewed likely cash requirements over the next 12 months, we do not see any need for a significant public share offer in the 2016/17 tax year. However, in order to maintain a comfortable margin of liquidity for new investments, we intend in conjunction with Northern Venture Trust and Northern 2 VCT to launch a non-prospectus 'top-up' share issue in January 2017 which will raise up to approximately £4 million for each VCT. It is intended that priority will be given to applications from existing investors.

480,000 shares were re-purchased for cancellation during the six months ended 30 September 2016 at a cost of £450,000.



**James Ferguson** *Chairman*

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### **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 Philip Hare & Associates LLP.

### **VCT legislation**

Shareholders will be aware that the Finance (No 2) Act 2015 gave effect to radical changes in the legislation governing the investment activities of VCTs, with the aim of placing the emphasis in future on the provision of growth capital for relatively young companies.

Your directors have reviewed the impact of the new VCT rules in the light of our experience over the past 12 months. NVM has a good record in making earlier-stage investments and has already recruited additional staff with relevant expertise. We are encouraged by the fact that six new investments qualifying under the new rules have already been completed.

Our existing VCT-qualifying investments are not affected by the new legislation, except that many of them will not be eligible for “follow-on” funding rounds. As the older investments are sold and holdings which qualify under the new rules are added, the composition of the portfolio will gradually change and future investment returns may be more volatile, with potentially a greater emphasis on capital appreciation rather than income.

### **Prospects**

In recent months the financial markets and the UK economy have been affected by concerns about the implications of the EU referendum result and the US Presidential election. Our portfolio companies, whilst in many cases active in export markets, have relatively few trading links with other EU countries and at this stage most are taking a positive view of the future. We expect to complete further additions to the portfolio in the second half of the financial year, whilst a number of existing holdings are the subject of negotiations with potential acquirers. Against this background we are cautiously optimistic about our company’s prospects.

### **On behalf of the Board**

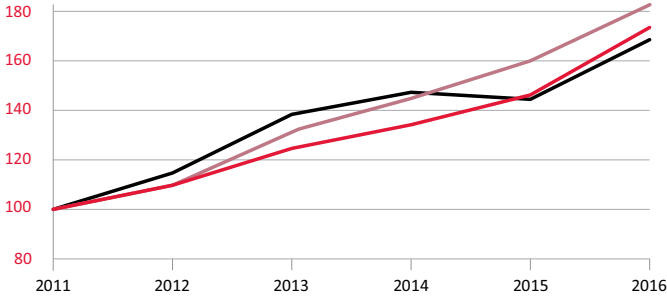
**James Ferguson**  
Chairman

15 November 2016

# Five year performance

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

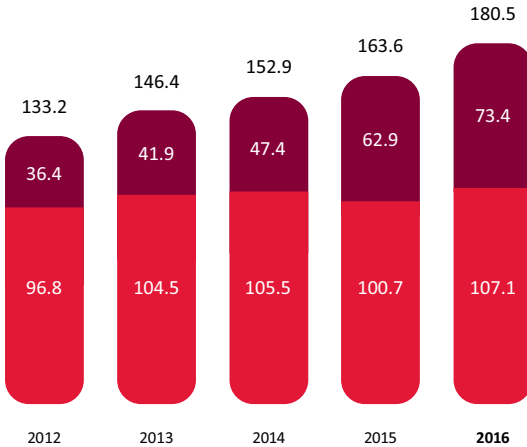
Five years to 30 September 2016 (30 September 2011 = 100)



— 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)



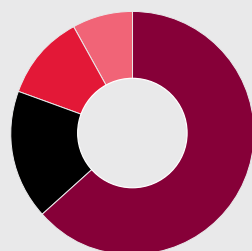
● Cumulative dividends paid  
● Net asset value per share

# Investment portfolio

as at 30 September 2016

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments</b>			
Entertainment Magpie Group	1,360	4,657	6.6
IDOX*	600	3,368	4.8
No 1 Traveller	1,748	2,808	3.9
Optilan Group	1,125	2,728	3.9
Buoyant Upholstery	1,294	2,597	3.7
Lineup Systems	974	2,468	3.5
MSQ Partners Group	1,478	2,438	3.5
Axial System Holdings	1,293	2,253	3.2
Cawood Scientific	825	1,930	2.7
It's All Good	1,131	1,791	2.5
Wear Inns	1,406	1,747	2.5
Volumatic Holdings	1,762	1,725	2.4
Closerstill Group	1,520	1,529	2.2
Agilitas IT Holdings	1,448	1,421	2.0
Biological Preparations Group	1,915	1,412	2.0
<b>Fifteen largest venture capital investments</b>	<b>19,879</b>	<b>34,871</b>	<b>49.4</b>
Other venture capital investments	27,798	25,338	35.9
<b>Total venture capital investments</b>	<b>47,677</b>	<b>60,209</b>	<b>85.3</b>
Listed equity investments	7,872	8,640	12.2
<b>Total fixed asset investments</b>	<b>55,549</b>	<b>68,849</b>	<b>97.5</b>
Net current assets		1,708	2.5
<b>Net assets</b>		<b>70,557</b>	<b>100.0</b>

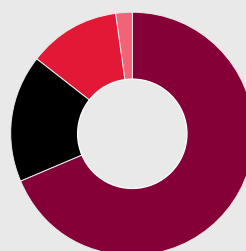
\*Quoted on AIM



30 September 2016

## Asset allocation

68.8%	● Venture capital – unquoted	63.6%
16.7%	● Venture capital – quoted	17.1%
12.3%	● Listed equity	11.5%
2.2%	● Cash and short term deposits	7.8%



30 September 2015

# Income statement

(unaudited) for the six months ended 30 September 2016

	Six months ended 30 September 2016		
	Revenue £000	Capital £000	Total £000
<b>Gain on disposal of investments</b>	–	492	492
<b>Movements in fair value of investments</b>	–	7,975	7,975
	–	8,467	8,467
Income	1,201	–	1,201
Investment management fee	(173)	(517)	(690)
Other expenses	(150)	–	(150)
<b>Return on ordinary activities before tax</b>	878	7,950	8,828
Tax on return on ordinary activities	(105)	105	–
<b>Return on ordinary activities after tax</b>	773	8,055	8,828
<b>Return per share</b>	1.2p	12.3p	13.5p
<b>Dividends paid/proposed in respect of the period</b>	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.



Six months ended 30 September 2015			Year ended 31 March 2016		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	639	639	–	1,796	1,796
–	3,678	3,678	–	5,037	5,037
–	4,317	4,317	–	6,833	6,833
1,148	–	1,148	2,201	–	2,201
(183)	(550)	(733)	(354)	(1,530)	(1,884)
(173)	–	(173)	(314)	–	(314)
792	3,767	4,559	1,533	5,303	6,836
(67)	67	–	(145)	145	–
725	3,834	4,559	1,388	5,448	6,836
1.1p	5.8p	6.9p	2.1p	8.3p	10.4p
1.0p	1.0p	2.0p	2.0p	8.5p	10.5p

# Balance sheet

(unaudited) as at 30 September 2016

	30 September 2016 £000	30 September 2015 £000	31 March 2016 £000
<b>Fixed assets</b>			
Investments	68,849	61,086	58,695
<b>Current assets</b>			
Debtors	251	169	252
Cash and deposits	1,542	5,158	8,637
	1,793	5,327	8,889
<b>Creditors (amounts falling due within one year)</b>	(85)	(123)	(620)
<b>Net current assets</b>	1,708	5,204	8,269
<b>Net assets</b>	70,557	66,290	66,964
<b>Capital and reserves</b>			
Called-up equity share capital	3,294	3,292	3,277
Share premium	2,074	1,348	1,348
Capital redemption reserve	100	61	76
Capital reserve	50,756	54,754	54,452
Revaluation reserve	13,300	5,927	6,899
Revenue reserve	1,033	908	912
<b>Total equity shareholders' funds</b>	70,557	66,290	66,964
<b>Net asset value per share</b>	107.1p	100.7p	102.2p

# Statement of changes in equity

(unaudited) for the six months ended 30 September 2016

	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 2016</b>	3,277	1,348	76	6,899	54,452	
Return on ordinary activities after tax	–	–	–	6,401	1,654	773	8,828
Dividends paid	–	–	–	–	(4,900)	(652)	(5,552)
Net proceeds of share issues	41	726	–	–	–	–	767
Shares purchased for cancellation	(24)	–	24	–	(450)	–	(450)
<b>At 30 September 2016</b>	<b>3,294</b>	<b>2,074</b>	<b>100</b>	<b>13,300</b>	<b>50,756</b>	<b>1,033</b>	<b>70,557</b>
<b>Six months ended 30 September 2015</b>							
<b>At 1 April 2015</b>	3,318	1,348	35	2,393	62,884	1,177	71,155
Return on ordinary activities after tax	–	–	–	3,534	299	726	4,559
Dividends paid	–	–	–	–	(7,963)	(995)	(8,958)
Net proceeds of share issues	–	–	–	–	–	–	–
Shares purchased for cancellation	(26)	–	26	–	(466)	–	(466)
<b>At 30 September 2015</b>	<b>3,292</b>	<b>1,348</b>	<b>61</b>	<b>5,927</b>	<b>54,754</b>	<b>908</b>	<b>66,290</b>
<b>Year ended 31 March 2016</b>							
<b>At 1 April 2015</b>	3,318	1,348	35	2,393	62,884	1,177	71,155
Return on ordinary activities after tax	–	–	–	4,506	942	1,388	6,836
Dividends paid	–	–	–	–	(8,620)	(1,653)	(10,273)
Net proceeds of share issues	–	–	–	–	–	–	–
Shares purchased for cancellation	(41)	–	41	–	(754)	–	(754)
<b>At 31 March 2016</b>	<b>3,277</b>	<b>1,348</b>	<b>76</b>	<b>6,899</b>	<b>54,452</b>	<b>912</b>	<b>66,964</b>

# Statement of cash flows

(unaudited) for the six months ended 30 September 2016

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000	Year ended 31 March 2016 £000
<b>Cash flows from operating activities</b>			
Return on ordinary activities before tax	8,828	4,559	6,836
Adjustments for:			
Gain on disposal of investments	(492)	(639)	(1,796)
Movements in fair value of investments	(7,975)	(3,678)	(5,037)
(Increase)/decrease in debtors	1	86	3
Increase/(decrease) in creditors	(535)	(74)	423
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(173)</b>	<b>254</b>	<b>429</b>
<b>Cash flows from investing activities</b>			
Purchase of investments	(5,547)	(11,937)	(12,320)
Sale/repayment of investments	3,860	5,539	10,829
<b>Net cash outflow from investing activities</b>	<b>(1,687)</b>	<b>(6,398)</b>	<b>(1,491)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares	775	–	–
Share issue expenses	(8)	–	–
Purchase of ordinary shares for cancellation	(450)	(466)	(754)
Equity dividends paid	(5,552)	(8,958)	(10,273)
<b>Net cash outflow from financing activities</b>	<b>(5,235)</b>	<b>(9,424)</b>	<b>(11,027)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(7,095)</b>	<b>(15,568)</b>	<b>(12,089)</b>
Cash and cash equivalents at beginning of period	8,637	20,726	20,726
<b>Cash and cash equivalents at end of period</b>	<b>1,542</b>	<b>5,158</b>	<b>8,637</b>

# Notes to the financial statements

(unaudited) for the six months ended 30 September 2016

- 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 by The Association of Investment Companies in November 2014 (AIC 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 2016 and on 65,685,799 (2015 66,188,044) 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 2016 divided by the 65,880,055 (2015 65,833,399) ordinary shares in issue at that date.
- 4 The interim dividend of 2.0p per share for the year ending 31 March 2017 will be paid on 27 January 2017 to shareholders on the register at the close of business on 6 January 2017.
- 5 The unaudited half-yearly financial statements for the six months ended 30 September 2016 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 2016 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 2016.
- 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 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](http://www.nvm.co.uk).

# Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. The principal 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:

**Investment and liquidity risk:** many of the company's investments are in small and medium-sized unquoted and AIM quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. **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 by maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the manager on a regular basis.

**Financial risk:** most of the company's investments involve a medium- to long-term commitment and many are relatively illiquid. **Mitigation:** 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 take advantage of new unquoted investment opportunities. The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions.

**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. **Mitigation:** 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 appropriate.

**Stock market risk:** some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in smaller companies quoted on AIM. **Mitigation:** the company's quoted investments are actively managed by specialist managers and the board keeps the portfolio under ongoing review.

**Credit risk:** the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. **Mitigation:** 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.

**Legislative and regulatory risk:** in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK, which reflects the European Commission's State aid rules. Changes to the UK legislation or the State aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. **Mitigation:** The board and the manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

**Internal control risk:** the company's assets could be at risk in the absence of an appropriate internal control regime. **Mitigation:** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

**VCT qualifying status risk:** the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. **Mitigation:** the 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 & Associates LLP to undertake an independent VCT status monitoring role.

# Company information

## Directors

James Ferguson (Chairman)  
Chris Fleetwood  
Tim Levett  
John Waddell

## Secretary

Christopher Mellor FCA MCSI

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## Registrars

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Lancing BN99 6DA  
Equiniti shareholder helpline:  
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