Northern 3 VCT PLC

Half-Yearly Financial Report
30 September 2024

Welcome

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

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.

Contents

Financial summary

	Six months ended 30 September 2024	Six months ended 30 September 2023	Year ended 31 March 2024
Net assets	**£129.7m**	£116.0m	£122.5m
Net asset value per share	**88.5p**	90.0p	89.3p
Return per share			
Revenue	0.4p	0.5p	1.1p
Capital	0.9p	0.4p	1.1p
Total	**1.3p**	0.9p	2.2p
Dividend declared in respect of the period	**2.0p**	2.0p	4.2p
Cumulative return to shareholders since launch			
Net asset value per share	88.5p	90.0p	89.3p
Dividends paid per share*	120.1p	115.9p	117.9p
Net asset value plus dividends paid per share	**208.6p**	205.9p	207.2p
Mid-market share price at end of period	**85.0p**	85.0p	84.5p
Share price discount to net asset value	**4.0%**	5.6%	5.4%
Tax-free dividend yield (based on the net asset value per share)**	**4.7%**	4.9%	4.6%

* Excluding interim dividend not yet paid.

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

Key dates

21 November 2024

Half-yearly results announced

19 December 2024

Shares quoted ex dividend

22 January 2025

Interim dividend paid
(to shareholders on register
on 20 December 2024)

James Ferguson
Chairman

> "The Company's investment in Gentronix, a biotechnology company that provides predictive toxicology solutions, was sold for net proceeds of £3.6 million, representing a return of 4.5 times on the original cost."

Half-yearly management report

for the six months ended 30 September 2024

Over the past six months, there have been early signs of growth returning in the UK economy, with less inflationary pressures, some stabilisation in energy prices and a gradual recovery in consumer confidence. While the global political climate remains uncertain and there are still many reasons to be cautious about domestic instability, your Company continues to deliver investments into early-stage businesses to provide ongoing support to its existing portfolio companies, and to generate returns through successful realisations.

Venture capital investment activity and portfolio update

We are pleased to report that a number of our venture investments have performed well over the period which is reflected in an overall increase in the valuation of the unquoted portfolio. Where portfolio companies have struggled or are at risk of failure, we have made a number of reductions in valuations to reflect our current assessment.

The Company received £4.4 million as proceeds of sales during the period. Notably, the Company's investment in Gentronix, a biotechnology company that provides predictive toxicology solutions, was sold for net proceeds of £3.6 million, representing a return of 4.5 times on the original cost. Following the period end, we exited one of our larger investments, The Climbing Hangar, at a modest increase on its valuation at 31 March 2024 but below cost, at just over 70% of our total investment cost. Based in Liverpool, we first invested in the company, which operated three indoor climbing centres, in August 2018 and supported the acquisition of five new sites through three additional funding rounds. However, Covid lockdowns severely impacted operations and delayed the company's ability to reach breakeven, creating a need for more capital investment. The company reached its limit for VCT funding and we were unable to offer further financial support. Whilst a disappointing financial result, the sale enables the company's operations to continue with new owners which are able to fund the company's continued expansion.

During the period £6.0 million was invested across three existing and three companies that were new to the portfolio. The new investments were Ski Zoom (t/a Heidi) (£1.5 million investment), a booking platform for flexible winter mountain breaks, Culture AI (£1.4 million), a cyber security training and monitoring platform, and Promethean Particles (£1.4 million), a developer of carbon capture and gas storage technologies.

Results and dividend

The unaudited net asset value (NAV) per share on 30 September 2024 was 88.5 pence (89.3 pence (audited) on 31 March 2024) and is stated after deducting the final dividend of 2.2 pence per share in respect of the 2023/24 financial year, which was paid in August 2024. The return per share as shown in the income statement for the six months ended 30 September 2024 was 1.3 pence, primarily as a result of realised and unrealised gains of £2.1 million.

The Board has declared an interim dividend for the year ending 31 March 2025 of 2.0 pence per share, which will be paid on 22 January 2025 to shareholders who are on the register on 20 December 2024. 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

In April 2024, 11,702,332 shares, related to the second allotment of the 2023/24 share offer totalling £20 million, were issued, yielding gross subscriptions of £11.0 million.

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 11% of total dividends reinvested by shareholders during the period.

To continue to support our existing portfolio and invest in new early-stage opportunities, in late September 2024 we announced our intention to raise funds in this tax year in conjunction with the other Northern VCTs. Full details of how to participate in the up to £6 million fundraise will be published in January 2025.

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 2,836,433 shares were repurchased for cancellation, equivalent to approximately 2.1% of the opening share capital.

VCT qualifying status and legislation

The Company has continued to meet the stringent and complex qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The 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 tax relief when investing in VCTs after this date. We are pleased to report that following final review by the European Union and the issuance of the necessary statutory instrument, in September 2024 the Sunset Clause was officially extended until 2035.

Outlook

With inflation stabilising and interest rates starting to fall, there are tentative signs of optimism returning in the UK's economic climate. Whilst the impact of the uncertainty caused in the run up to the UK budget and US election cycle remains to be seen, we remain confident in the prospects of our portfolio companies and will continue to work with our Manager to make the most of the opportunities for value creation as they arise.

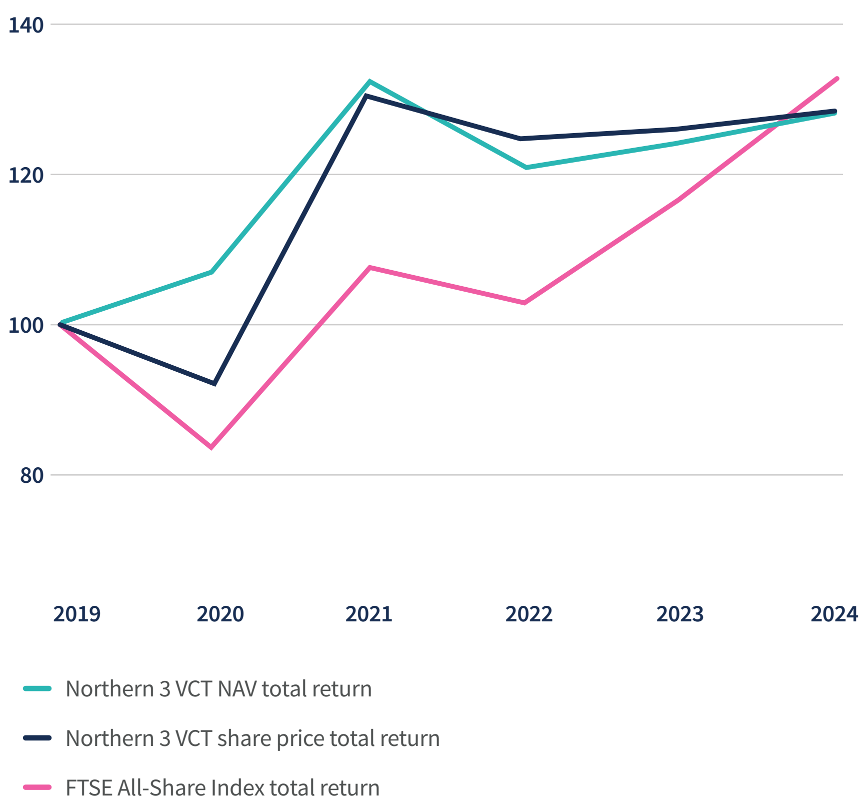
On behalf of the Board

James Ferguson
Chairman

Five-year performance

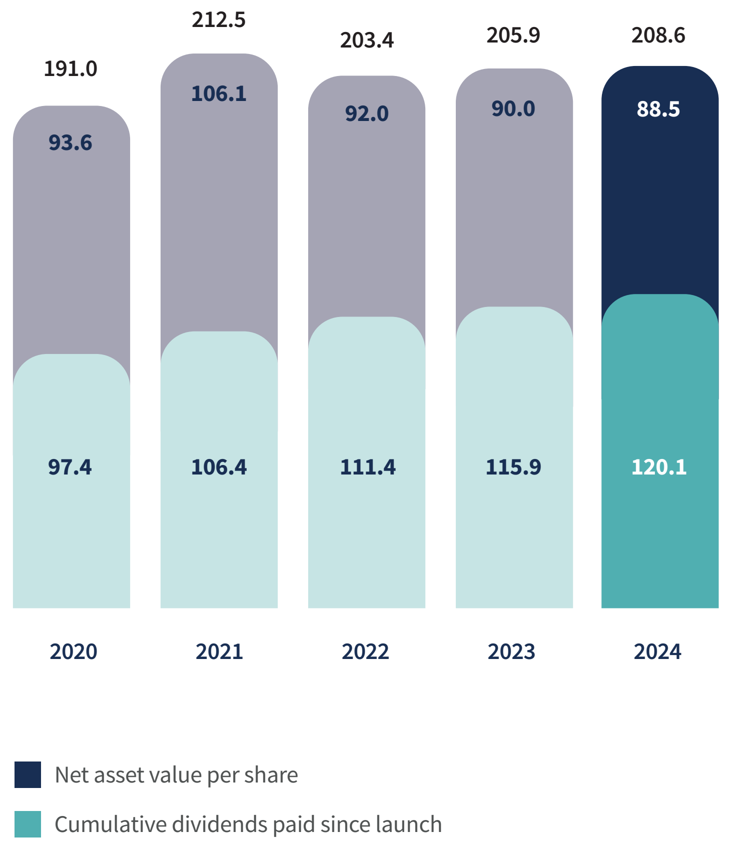
Comparative return to shareholders (assuming dividends re-invested)

Five years to 30 September 2024 (30 September 2019 = 100)



Net asset value and cumulative dividends per share

As at 30 September (pence per share)



Investment portfolio

As at 30 September 2024 (unaudited)

Fifteen largest venture capital investments	Cost £000	Valuation £000	% of net assets by value
Pure Pet Food	1,500	3,798	2.9%
Project Glow Topco (t/a Currentbody.com)	1,519	3,474	2.7%
Pimberly	1,910	3,245	2.5%
Rockar	1,660	3,049	2.4%
Tutora (t/a Tutorful)	2,973	2,973	2.3%
Newcells Biotech	2,707	2,707	2.1%
IDOX*	530	2,632	2.0%
Netacea	2,577	2,577	2.0%
Grip-UK (t/a The Climbing Hangar)	3,492	2,536	2.0%
Ridge Pharma	1,345	2,322	1.8%
Broker Insights	2,032	2,074	1.6%
LMC Software	1,909	1,909	1.5%
Forensic Analytics	1,869	1,869	1.4%
Volumatic Holdings	216	1,869	1.4%
Administrate	2,623	1,851	1.4%
Fifteen largest venture capital investments	**28,862**	**38,885**	**30.0%**
Other venture capital investments	53,332	42,888	33.1%
Total venture capital investments	**82,194**	**81,773**	**63.1%**
Listed equity investments	10,466	13,039	10.0%
Total fixed asset investments	**92,660**	**94,812**	**73.1%**
Net current assets		34,844	26.9%
Net assets		**129,656**	**100.0%**

* Quoted on AIM

Income statement

For the six months ended 30 September 2024 (unaudited)

	Six months ended 30 September 2024			Six months ended 30 September 2023			Year ended 31 March 2024		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	**–**	**1,065**	**1,065**	–	544	544	–	855	855
Movements in fair value of investments	**–**	**1,063**	**1,063**	–	897	897	–	2,312	2,312
	–	**2,128**	**2,128**	–	1,441	1,441	–	3,167	3,167
Dividend and interest income	**1,227**	**–**	**1,227**	1,181	–	1,181	2,590	–	2,590
Investment management fee	**(284)**	**(852)**	**(1,136)**	(266)	(797)	(1,063)	(528)	(1,585)	(2,113)
Other expenses	**(284)**	**–**	**(284)**	(315)	–	(315)	(606)	–	(606)
Return before tax	**659**	**1,276**	**1,935**	600	644	1,244	1,456	1,582	3,038
Tax on return	**(111)**	**111**	**–**	82	(82)	–	82	(82)	–
Return after tax	**548**	**1,387**	**1,935**	682	562	1,244	1,538	1,500	3,038
Return per share	**0.4p**	**0.9p**	**1.3p**	0.5p	0.4p	0.9p	1.1p	1.1p	2.2p

- 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

As at 30 September 2024 (unaudited)

	30 September 2024 £000	30 September 2023 £000	31 March 2024 £000
Fixed assets			
Investments	**94,812**	80,260	91,001
Current assets			
Debtors	**613**	383	927
Cash and cash equivalents	**34,394**	35,517	30,726
	35,007	35,900	31,653
Creditors (amounts falling due within one year)	**(163)**	(139)	(158)
Net current assets	**34,844**	35,761	31,495
Net assets	**129,656**	116,021	122,496
Capital and reserves			
Called-up equity share capital	**7,323**	6,447	6,858
Share premium	**61,979**	43,240	51,738
Capital redemption reserve	**1,076**	843	934
Capital reserve	**55,868**	67,581	58,846
Revaluation reserve	**2,152**	(3,369)	2,674
Revenue reserve	**1,258**	1,279	1,446
Total equity shareholders' funds	**129,656**	116,021	122,496
Net asset value per share	**88.5p**	90.0p	89.3p

Statement of changes in equity

For the six months ended 30 September 2024 (unaudited)

	Non-distributable reserves				Distributable reserves		
	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve* £000	Capital reserve £000	Revenue reserve £000	Total £000
At 1 April 2024	**6,858**	**51,738**	**934**	**2,674**	**58,846**	**1,446**	**122,496**
Return after tax	**–**	**–**	**–**	**(522)**	**1,909**	**548**	**1,935**
Dividends paid	**–**	**–**	**–**	**–**	**(2,502)**	**(736)**	**(3,238)**
Net proceeds of share issues	**607**	**10,241**	**–**	**–**	**–**	**–**	**10,848**
Shares purchased for cancellation	**(142)**	**–**	**142**	**–**	**(2,385)**	**–**	**(2,385)**
At 30 September 2024	**7,323**	**61,979**	**1,076**	**2,152**	**55,868**	**1,258**	**129,656**
Six months ended 30 September 2023							
At 1 April 2023	**6,166**	**37,344**	**771**	**4,554**	**63,561**	**597**	**112,993**
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)
At 30 September 2023	**6,447**	**43,240**	**843**	**(3,369)**	**67,581**	**1,279**	**116,021**
Year ended 31 March 2024							
At 1 April 2023	**6,166**	**37,344**	**771**	**4,554**	**63,561**	**597**	**112,993**
Return after tax	–	–	–	(1,880)	3,380	1,538	3,038
Dividends paid	–	–	–	–	(5,295)	(689)	(5,984)
Net proceeds of share issues	855	14,394	–	–	–	–	15,249
Shares purchased for cancellation	(163)	–	163	–	(2,800)	–	(2,800)
At 31 March 2024	**6,858**	**51,738**	**934**	**2,674**	**58,846**	**1,446**	**122,496**

* 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

For the six months ended 30 September 2024 (unaudited)

	Six months ended 30 September 2024 £000	Six months ended 30 September 2023 £000	Year ended 31 March 2024 £000
Cash flows from operating activities			
Return before tax	**1,935**	1,244	3,038
Adjustments for:			
Gain on disposal of investments	**(1,065)**	(544)	(855)
Gain in fair value of investments	**(1,063)**	(897)	(2,312)
(Increase) / decrease in debtors	**314**	(276)	(122)
Increase / (decrease) in creditors	**5**	(30)	(11)
Net cash inflow / (outflow) from operating activities	**126**	(503)	(262)
Cash flows from investing activities			
Purchase of investments	**(6,476)**	(7,099)	(17,614)
Sale and repayment of investments	**4,793**	14,055	14,857
Net cash inflow / (outflow) from investing activities	**(1,683)**	6,956	(2,757)
Cash flows from financing activities			
Issue of ordinary shares	**11,323**	6,412	15,784
Share issue expenses	**(475)**	(163)	(535)
Purchase of ordinary shares for cancellation	**(2,385)**	(1,236)	(2,800)
Equity dividends paid	**(3,238)**	(3,229)	(5,984)
Net cash inflow / (outflow) from financing activities	**5,225**	1,784	6,465
Net increase / (decrease) in cash and cash equivalents	**3,668**	8,237	3,446
Cash and cash equivalents at beginning of period	**30,726**	27,280	27,280
Cash and cash equivalents at end of period	**34,394**	35,517	30,726

Notes to the financial statements

For the six months ended 30 September 2024 (unaudited)

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 2024 and on 147,760,918 (30 September 2023: 129,549,622) 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 2024 divided by the 146,458,027 (30 September 2023: 128,947,037) ordinary shares in issue at that date.

4. The interim dividend of 2.0 pence per share for the year ending 31 March 2025 will be paid on 22 January 2025 to shareholders on the register on 20 December 2024.

5. The unaudited half-yearly financial statements for the six months ended 30 September 2024 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 2024 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 2024.

6. Each of 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 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	Mitigation
Credit risk: the Company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. Such balances may be held with banks or in money market funds as part of the Company's liquidity management.	The Directors review the creditworthiness of the counterparties to these instruments including the rating of money market funds to seek to manage and mitigate exposure to credit risk.
Economic and geopolitical 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 is assessed against macroeconomic factors such as inflation, interest rates and the ability of companies to raise funds in the capital and private markets.	The Company invests in a diversified portfolio of investments spanning various industry sectors and which are at different stages of growth. The Company 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's team is structured such that appropriate monitoring and oversight is undertaken by an experienced investment executive. As part of this oversight, the investment executive will guide and support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment team of the Manager share best practice from across the portfolio with the investee management teams in order to help with addressing economic challenges.
Financial risk: most of the Company's investments involve a medium to long-term commitment and many are illiquid.	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.
Investment and liquidity risk: the Company invests in early stage companies which may be pre-revenue at the point of investment. Portfolio companies may also require significant funds, through multiple funding rounds to develop their technology or the products being developed may be subject to regulatory approvals before they can be launched into the market. This involves a higher degree of risk and company failure compared to investment in larger companies with established business models. Early stage companies generally have limited product lines, markets and financial resources and may be more dependent on key individuals. The securities of companies in which the Company invests are typically unlisted, making them particularly illiquid and may represent minority stakes, which may cause difficulties in valuing and disposing of the securities. The Company may invest in businesses whose shares are quoted on AIM however this may not mean that they can be readily traded and the spread between the buying and selling prices of such shares may be wide.	The Directors aim to limit the investment and liquidity risk through regular monitoring of the investment portfolio and oversight of the Manager who is responsible for advising the Board in accordance with the Company's investment objective. The investment and liquidity risks are mitigated through the 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 and liquidity with the Manager on a regular basis.

Risk management *continued*

Risk	Mitigation
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. 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.	The Board and the Manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.
Operational risk: the Company does not have any employees and the Board relies on a number of third party providers, including the Manager, registrar, listed investments custodian, sponsor, receiving agent, lawyers and tax advisers, to provide it with the necessary services to operate. Such operations delegated to the Company's key service providers may not be performed in a timely or accurate manner, resulting in reputational, regulatory, or financial damage. The risk of cyber-attack or failure of the systems and controls at any of the Company's third party providers may lead to an inability to service shareholder needs adequately, to provide accurate reporting and accounting and to ensure adherence to all VCT legislation rules.	The Board has appointed an Audit and Risk Committee, who monitor the effectiveness of the system of internal controls, both financial and non-financial, operated by the Company and the Manager. These controls are designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained. Third party suppliers are required to have in place their own risk and controls framework, business continuity plans and the necessary expertise and resources in place to ensure that a high quality service can be maintained even under stressed scenarios.
Stock market risk: a small proportion 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.	The Company's small number of holdings of quoted investments are actively managed by the Manager, and the Board keeps the portfolio and the actions taken under ongoing review.
VCT qualifying status risk: 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.	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.

The Board continually assesses and monitors emerging risks that could impact the Company's operations and strategic objectives. As part of the risk assessment process, the Board evaluates a wide range of potential threats and uncertainties that may arise from evolving market dynamics, regulatory changes, technological advancements such as artificial intelligence, geopolitical developments, and other external factors. By remaining aware of emerging risks, the Board ensures that the Company is better equipped to anticipate challenges and adapt swiftly to changing circumstances.

Company information

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Anna Brown
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Tim Levett
John Waddell

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