18 JUNE 2024

NORTHERN 3 VCT PLC

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 MARCH 2024

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.

Financial highlights (comparative figures as at 31 March 2023):

	Year ended 31 March 2024	Year ended 31 March 2023
Net assets	**£122.5m**	£113.0m
Net asset value per share	**89.3p**	91.6p
Return per share		
Revenue	**1.1p**	(0.1)p
Capital	**1.1p**	(1.5)p
Total	**2.2p**	(1.6)p
Dividend per share declared in respect of the period		
Interim dividend	**2.0p**	2.0p
Proposed final dividend	**2.2p**	2.5p
Total	**4.2p**	4.5p
Return to shareholders since launch		
Net asset value per share	**89.3p**	91.6p
Cumulative dividends paid per share*	**117.9p**	113.4p
Cumulative return per share	**207.2p**	205.0p
Mid-market share price at end of period	**84.5p**	84.5p
Share price discount to net asset value	**5.4%**	7.8%
Annualised tax-free dividend yield**	**4.6%**	4.6%

* Excluding proposed final dividend payable on 23 August 2024
** Based on net asset value per share at the start of the period

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Chairman's statement

Results and dividend
The net asset value (NAV) per share at 31 March 2024 was 89.3 pence compared with 91.6 pence as at 31 March 2023. The total return per share for the year as shown in the income statement was 2.2 pence (2023: minus 1.6 pence).

The target annual dividend yield continues to be set at 4.5% of opening NAV per share. Having already declared an interim dividend of 2.0 pence per share which was paid in January 2024, the Directors now propose a final dividend of 2.2 pence. These payments totalling 4.2 pence (2023 : 4.5 pence) are equivalent to 4.6% of the opening NAV (2023: 4.6%). The proposed final dividend will, subject to approval by shareholders at the Annual General Meeting, be paid on 23 August 2024.

Our dividend investment scheme, under which dividends can be re-invested 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. Instructions on how to join the scheme are included within the dividend section of our website, which can be found here:
mercia.co.uk/vcts/n3vct/.

Investment portfolio

A number of notable transactions were either completed or in progress as of 31 March 2024. The highlight during the year was the sale of Evotix (formerly SHE Software) which provided an initial return of 4.6 times cost rising to 4.9 times following the recent receipt of further deferred income since the year end, included in this set of results.

Several portfolio companies enjoyed significant growth in the year – Pure Pet Food, Project Glow Topco (t/a Currentbody.com) and Pimberly each increased in value by over £1 million. Sales in the venture portfolio realised £13.1 million on an initial cost of £8.0 million, producing a gain of £5.1 million. Against this provisions were raised in the investments in Volumatic Holdings and Grip UK (t/a Climbing Hangar). Additionally the value of musicMagpie, which is listed on AIM, fell by £0.7 million. £7.5 million was provided for six new venture capital investments and £7.6 million of follow on capital was invested in existing investments.

There have been recent comments suggesting that in general unlisted shares have been valued too highly. We would like to reiterate the fact that your Board has always had a realistic but conservative approach to valuation policy, which is reflected in our net asset value.

Share offers and liquidity
In April 2023 gross proceeds of £6.0 million were received from the 2022/2023 share offer with 6,597,040 new ordinary shares issued. We announced recently the successful subscription of the 2023/2024 share offer, which amounted to £20 million of gross subscriptions. This was made up of an interim allotment of 9,681,062 new ordinary shares in December 2023, generating £9.0 million in gross subscriptions, and 11,702,332 new ordinary shares issued just after the end of the period in April 2024, yielding gross subscriptions of £11.0 million.

The Board continues to monitor liquidity carefully and will publish details of the plans for raising funds in the 2024/25 tax year in due course.

We have maintained our policy of buying back our shares in the market, where necessary to maintain market liquidity. During the year 3,255,224 shares, equivalent to approximately 2.6% of the opening share capital, were purchased for cancellation.

Responsible Investment
The Company's approach to Environmental, Social and Governance (ESG) responsibilities is set out in the annual report.

Succession planning
Following a change of Manager in 2019, the impact of COVID, and the geopolitical and macroeconomic issues that I have discussed in my previous statements, the Nomination Committee has prioritised Board stability during the last few years. The Committee feels that it is now appropriate to progress its succession plan and the Board anticipates that an additional director will be appointed in the current financial period.

VCT legislation and qualifying status
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 reports regularly on the position to the Board. Philip Hare & Associates LLP has continued to act as independent adviser to the Company on VCT taxation matters.

The Board was pleased to note the recognition by the UK Government of the role that VCTs perform, following the announcement of the extension of the VCT tax reliefs for a further 10 years to 2035. The Board considers that the Company is delivering in accordance with the Government's mandate, which is to channel money into higher-risk, early-stage businesses.

Whilst no further amendments to the VCT legislation have been announced, it is possible that further changes will be made in the future. We will continue to work closely with the Manager to maintain compliance with the scheme rules at all times.

Annual General Meeting
The Company's Annual General Meeting (AGM) will take place on 1 August 2024. We intend to hold the 2024 AGM in person at Shoosmiths LLP, 9 Haymarket Square, Edinburgh, EH3 8RY. Following positive comments received from the last meetings, we also intend to offer remote access for shareholders through an online webinar facility. Full details and formal notice of the AGM will be provided separately. Please note that shareholders attending remotely must register their votes ahead of time, as it will not be possible to count votes from online participants at the AGM.

Outlook
Access to capital is one of the key factors contributing to the success of early stage businesses; we are confident that the Company is well-positioned to provide this. Despite economic uncertainties, we are encouraged by the present opportunities for investment.

James Ferguson
Chairman
18 June 2024

Extracts from the audited financial statements for the year ended 31 March 2024 are set out below:

Income statement

for the year ended 31 March 2024	**Year ended 31 March 2024**			Year ended 31 March 2023		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000

Gain on disposal of investments	-	855	855	-	1,414	1,414
Movement in fair value of investments	-	2,312	2,312	-	(1,540)	(1,540)
	-	3,167	3,167	-	(126)	(126)
Dividend and interest income	2,590	-	2,590	732	-	732
Investment management fee	(528)	(1,585)	(2,113)	(519)	(1,558)	(2,077)
Other expenses	(606)	-	(606)	(496)	-	(496)
Return before tax	**1,456**	**1,582**	**3,038**	**(283)**	**(1,684)**	**(1,967)**
Tax on return	82	(82)	-	122	(122)	-
Return after tax	**1,538**	**1,500**	**3,038**	**(161)**	**(1,806)**	**(1,967)**
Return per share	**1.1p**	**1.1p**	**2.2p**	**(0.1)p**	**(1.5)p**	**(1.6)p**

Balance sheet

as at 31 March 2024	**31 March 2024**	31 March 2023
	£000	£000
Fixed assets		
Investments	**91,001**	85,775
Current assets		
Debtors	**927**	107
Cash and cash equivalents	**30,726**	27,280
	31,653	27,387
Creditors (amounts falling due within one year)	**(158)**	(169)
Net current assets	**31,495**	27,218
Net assets	**122,496**	112,993
Capital and reserves		
Called-up equity share capital	**6,858**	6,166
Share premium	**51,738**	37,344
Capital redemption reserve	**934**	771
Capital reserve	**58,846**	63,561
Revaluation reserve	**2,674**	4,554
Revenue reserve	**1,446**	597
Total equity shareholders' funds	**122,496**	112,993
Net asset value per share	**89.3p**	91.6p

Statement of changes in equity

for the year ended 31 March 2024	**Non-distributable reserves**			**Distributable reserves**			
	Called up share capital	**Share premium**	**Capital redemption reserve**	**Revaluation reserve**	**Capital reserve**	**Revenue reserve**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
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**

for the year ended 31 March 2023	---------------	**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 2022	5,456	20,909	602	13,659	64,849	1,385	**106,860**
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)**
At 31 March 2023	**6,166**	**37,344**	**771**	**4,554**	**63,561**	**597**	**112,993**

Statement of cash flows

for the year ended 31 March 2024	**Year ended 31 March 2024 £000**	Year ended 31 March 2023 £000
Cash flows from operating activities		
Return before tax	**3,038**	(1,967)
Adjustments for:		
(Gain) / loss on disposal of investments	**(855)**	(1,414)
Movements in fair value of investments	**(2,312)**	1,540
(Increase) / decrease in debtors	**(122)**	(47)
Increase / (decrease) in creditors	**(11)**	17
Net cash inflow / (outflow) from operating activities	**(262)**	(1,871)
Cash flows from investing activities		
Purchase of investments	**(17,614)**	(17,699)
Sale / repayment of investments	**14,857**	17,067
Net cash inflow / (outflow) from investing activities	**(2,757)**	(632)
Cash flows from financing activities		
Issue of ordinary shares	**15,784**	17,815
Share issue expenses	**(535)**	(501)
Purchase of ordinary shares for cancellation	**(2,800)**	(2,973)
Equity dividends paid	**(5,984)**	(6,241)
Net cash inflow / (outflow) from financing activities	**6,465**	8,100
Increase / (decrease) in cash and cash equivalents	**3,446**	5,597
Cash and cash equivalents at beginning of year	**27,280**	21,683
Cash and cash equivalents at end of year	**30,726**	27,280

Investment portfolio
as at 31 March 2024

	Cost £000	**Valuation £000**	**Like for like valuation increase/ (decrease) over year** £000**	**% of net assets by value**
Fifteen largest venture capital investments				
1 Pimberly	1,910	3,227	1,317	2.6%

2	Project Glow Topco (t / a Currentbody.com)	1,519	3,206	1,686	2.6%
3	Tutora (t / a Tutorful)	2,973	2,973	(103)	2.4%
4	Newcells Biotech	2,707	2,928	185	2.4%
5	Pure Pet Food	1,601	2,897	1,232	2.4%
6	Rockar	1,660	2,800	328	2.3%
7	IDOX*	530	2,684	(44)	2.2%
8	Netacea	2,577	2,577	–	2.1%
9	Gentronix	805	2,532	727	2.1%
10	Adludio	2,438	2,447	9	2.0%
11	Grip-UK (t / a The Climbing Hangar)	3,492	2,343	(1,149)	1.9%
12	Broker Insights	2,032	2,041	9	1.7%
13	Buoyant Upholstery	907	1,985	521	1.6%
14	Ridge Pharma	1,345	1,947	600	1.6%
15	Volumatic Holdings	216	1,921	(1,354)	1.6%
Other venture capital investments					
16	LMC Software	1,909	1,909	–	1.6%
17	Forensic Analytics	1,869	1,869	–	1.5%
18	Clarilis	1,772	1,772	–	1.4%
19	Biological Preparations Group	1,915	1,746	(74)	1.4%
20	Turbine Simulated Cell Technologies	1,542	1,744	202	1.4%
21	Camena Bioscience	1,744	1,744	–	1.4%
22	Social Value Portal	1,722	1,722	–	1.4%
23	Locate Bio	1,625	1,625	–	1.3%
24	Risk Ledger	1,556	1,556	–	1.3%
25	VoxPopMe	1,493	1,493	12	1.2%
26	Enate	1,373	1,373	–	1.1%
27	Administrate	2,143	1,349	(366)	1.1%
28	Optellum	1,250	1,250	–	1.0%
29	Moonshot	1,217	1,217	–	1.0%
30	Centuro Global	1,136	1,136	–	0.9%
31	MIP Discovery	1,115	1,115	–	0.9%
32	Wobble Genomics	1,053	1,053	–	0.9%
33	Send Technology Solutions	1,049	1,049	–	0.9%
34	iOpt	1,038	1,038	–	0.8%
35	Wonderush Ltd (t / a Hownow)	1,029	1,029	–	0.8%
36	Axis Spine Technologies	1,028	1,028	–	0.8%
37	Warwick Acoustics	1,019	1,019	–	0.8%
38	Seahawk Bidco	433	838	444	0.7%
39	Naitive Technologies	721	721	–	0.6%
40	Oddbox	986	718	41	0.6%
41	Northrow	1,385	638	(100)	0.5%
42	Eckoh*	528	629	34	0.5%
43	Duke & Dexter	1,113	580	(541)	0.5%
44	Intuitive Holding	1,293	573	43	0.5%
45	Rego Technologies (t / a Upp)(formerly Volo)	2,182	522	91	0.4%
46	Synthesized	500	500	–	0.4%
47	Netcall*	273	450	(40)	0.4%
48	Fresh Approach (UK) Holdings	805	417	(331)	0.4%
49	Thanksbox (t / a Mo)	1,520	374	(207)	0.3%
50	Atlas Cloud	638	351	(287)	0.3%
51	Sen Corporation	666	293	(376)	0.3%
52	musicMagpie*	201	255	(683)	0.2%
53	Arnlea Holdings	1,138	207	10	0.2%
54	ECO Animal Health*	497	191	(28)	0.2%
55	Sorted	154	154	(25)	0.1%
56	Synectics*	171	146	49	0.1%
57	Pebble Beach Systems*	564	100	30	0.1%
58	Customs Connect Group	1,348	100	(8)	0.1%

59 Angle*	131	45	(28)	0.0%
60 Velocity Composites*	57	20	(1)	0.0%
61 Quotevine	1,184	–	–	0.0%
62 Nutshell	665	–	(349)	0.0%
63 Ablatus Therapeutics	551	–	–	0.0%
Total venture capital investments	**78,013**	**78,166**		**63.8%**
Listed equity investments	**10,314**	**12,835**		**10.5%**
Total fixed asset investments	**88,327**	**91,001**		**74.3%**
Net current assets		**31,495**		**25.7%**
Net assets		**122,496**		**100.0%**

* Quoted on AIM
**This change in 'like for like' valuations is a comparison of the 31 March 2024 valuations with the 31 March 2023 valuations (or where a new investment has been made in the year, the investment amount), having adjusted for any partial disposals, loan stock repayments or new and follow-on investments in the year.

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:

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.

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 Manager on a regular basis.

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

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 recently by inflationary pressures, interest rate increases, and supply shortages.

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 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.

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 the 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.

Mitigation: 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.

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. Changes to the 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.

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 which is able to operate effectively even during times of disruption.

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: 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.

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.

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, 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.

Directors' Responsibilities
The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with UK accounting standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for the year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

The Directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors of the company at the date of this announcement were Mr J G D Ferguson (Chairman), Mrs A B Brown, Mr C J Fleetwood, Mr T R Levett and Mr J M O Waddell.

Other matters
The financial information set out above does not constitute the company's statutory accounts for the years ended 31 March 2024 or 2023 but is derived from those accounts. Statutory accounts for 2023 have been delivered to the registrar of companies, and those for 2024 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified; (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The calculation of the return per share is based on the return after tax for the year of £3,038,000 (2023: loss £1,967,0000) and on 131,811,967 (2023: 124,886,897) shares, being the weighted average number of shares in issue during the year.

The calculation of net asset value per share as at 31 March 2024 is based on net assets of £122,496,000 (2023: £112,993,000) divided by the 137,164,335 (2023: 123,319,779) ordinary shares in issue at
that date.

If approved by shareholders, the proposed final dividend of 2.2 pence per share for the year ended 31 March 2024 will be paid on 23 August 2024 to shareholders on the register at the close of business on 26 July 2024.

The full annual report including financial statements for the year ended 31 March 2024 is expected to be made available to shareholders on or around 28 June 2024 and will be available to the public at the registered office of the company at Forward House, 17 High Street, Henley-in-Arden B95 5AA and on the company's website.

Neither the contents of the Mercia Asset Management PLC website, nor the contents of any website accessible from hyperlinks on the Mercia Asset Management PLC website (or any other website), are incorporated into, or form part of, this announcement.